



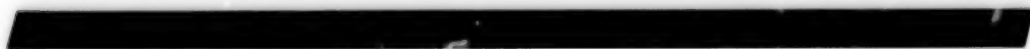
Foreign
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13 September 1994



CENTRAL EURASIA



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FBIS Report: Central Eurasia

FBIS-USR-94-100

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Plutonium Smuggling Row Leaves Many Unanswered Questions

944F1407A Moscow NEZAVISIMAYA GAZETA
in Russian 25 Aug 94 p 1

[Article by Andrey Vaganov: "Consensus Reached in the Nuclear Smuggling Case: But This Does Not Mean That This Puts an End to the Plutonium Row"]

[Text] It would seem that the speculative wave of interest in the problem of the illegal transit of fissionable material is destined to subside without having satisfied the public interest in full. Here is a concise chronology of events.

A container of some radioactive substance was confiscated on 10 August at Munich Airport from a citizen of Colombia who had arrived by plane from Russia. The scenario of "Russian radioactive footprints" began immediately to be unwound in the Western press: Among the 3,000 business cards found on the Colombian, there are two that belong to employees of the Kurchatov Institute Russian Research Center. Figures were cited initially that for specialists in the field of nuclear engineering sounded simply fantastic—hundreds of grams of weapons-grade plutonium-239. The German side demands that Boris Yeltsin, president of the Russian Federation, take charge of the problem personally. Urgent preparations for a visit to Russia by Bernd Schmidbauer, coordinator of Germany's special services, begin simultaneously. As far as we can tell, Herr Schmidbauer was until the last moment expecting a meeting with the president of the Russian Federation, and no lower, which caused ill-concealed irritation on the part of his Russian colleagues. They, representatives of the Ministry of Atomic Energy of the Russian Federation and the leadership of the Kurchatov Institute Russian Research Center, immediately and categorically rejected the version of the Russian origin of the confiscated plutonium and demanded that samples of it be made available for analysis by Russian specialists. But instead of samples, Bernd Schmidbauer, who arrived in Moscow last Saturday on a three-day visit, brought only the findings of German experts on the results of the spectrum analyses that they had conducted. Be that as it may, on Monday, 22 August, Sergey Stepashin, director of the Federal Counterintelligence Service of the Russian Federation, and Herr Schmidbauer signed a joint memorandum on the results of the visit. It was learned yesterday that Boris Yeltsin and Helmut Kohl had been familiarized with the memorandum and had approved it.

The signing of this document should, it might have seemed, have dotted all the "i's" in the plutonium row. But merely the fact that the quantity of the confiscated substance constitutes six grams and that this is not weapons-grade plutonium but the so-called MOX fuel—a mixture of uranium oxides and plutonium used as nuclear power station fuel—has been established more or less accurately. There are no plants in Russia that

produce MOX fuel. "Clearly, this material was not used at any of the nuclear facilities of Russia," Yevgeniy Makerin, director of a department of the Ministry of Atomic Energy of the Russian Federation, emphasized after the signing.

But Academician Nikolay Ponomarev-Stepnoy, vice president of the Kurchatov Institute Russian Research Center, for example, declared at a news conference that he possessed no official information on the results of Bernd Schmidbauer's visit. "I derive my entire information connected with the substance confiscated in Munich from the press. The Russian Research Center has no analytical data. But competent authorities told me by telephone that the analyses were such and such." It is odd that there was not a single representative of the Kurchatov Institute Russian Research Center at the Russian-German negotiations. As far as the employees of the institute whose cards were found on the Colombian are concerned, they belong, according to Ponomarev-Stepnoy, to two leading specialists of the Russian Research Center in the field of chemistry and physical methods of work with fissile material. There are no complaints about them, and they themselves do not recall having given their cards to any Colombian subject (the Russian Research Center has up to 2,500 foreign visitors a year; approximately 1,000 of the institute staff travel overseas every year).

Once again it follows from what the academician said that MOX fuel is as much an individual thing as fingerprints. Establishing this country or the other's ownership of this substance would constitute no difficulty were the results of the analyses to be compared with the known conditions of Russian plutonium. The German experts cannot do this simply because these are secret data. At the same time, on the other hand, the parties agree in the signed memorandum that the analyses of the radioactive substance confiscated in Munich should be conducted in the FRG ("...the confiscated material will be analyzed in the laboratory of the country on whose territory this material is found," the memorandum says). The situation is reminiscent of a silent compromise: The Russian side entrusts the analyses to the Germans, but there will be nothing with which to compare their results. As Aleksandr Mikhaylov, chief of the Federal Counterintelligence Service Public Relations Center, declared at a briefing held yesterday, "the purpose of the memorandum is to answer the question of what is to be done, not the question of who is to blame."

Certain other questions remain unanswered also. Why have all the instances of the smuggling of radioactive materials been recorded only in the FRG (the other nuclear countries are relatively indifferent to these incidents)? If there was, indeed, a smuggling attempt, who was its ultimate client? All the checks carried out in the Kurchatov Institute Russian Research Center in terms of the recording, supervision, and physical protection of fissionable materials have shown the absence of losses and of the unauthorized use or theft of these materials.

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At the same time, on the other hand, according to official IAEA standards, a quantity of plutonium of less than 15 grams is not recorded at all (six grams, I would recall,

were confiscated from the Colombian in Munich). Thus the plutonium row will, it would seem, supplement the already rich collection of unsolved riddles of the century.

Zotov on Troop Withdrawal From Latvia

944F1450A Moscow NEZAVISIMAYA GAZETA
in Russian 30 Aug 94 p 3

[Article by Sergey Zotov, special envoy, head of the state delegation of the Russian Federation at the negotiations with the Latvian Republic: "Diplomacy and the Troop Withdrawal: The Last Russian Troops Will Leave Latvian Territory Tomorrow"]

[Text] Against the background of many centuries of relations between the Russian and Latvian peoples, the years of the current negotiation process between Russia and Latvia (1992-1994) at first glance seem to be only a small episode. In reality they represent an achievement of great historic importance. I am convinced that in time they will become the subject of attentive study by specialists and scholars, but only after at least 10 years have passed will it be possible to make an impartial and objective appraisal of the events of this period. Right now, as we have to cut "live flesh," as "passions" have not yet subsided, as it is still difficult to rise above the trifles and sore points of secondary importance, it is very difficult to put everything in proper perspective. But even now there is no doubt that 31 August 1994—the day Russia completes withdrawal of its troops from the territory of Latvia and Estonia—is the culmination of a lengthy period of inter-relations and the starting point of a new stage in their cohabitation.

Reaching this point was made possible by the exceptionally complex and delicate work over the past two and a half years by the state delegations of Russia and Latvia in tense and sometimes dramatic negotiations. The task that was being resolved was immense in its seriousness, scale, and complexity, and was the first of this kind the diplomacy of each country had encountered—to implement a civilized "divorce" of two republics that had lived under the same roof for half a century and to put this "divorce" process on a solid contract-legal base. There are no precedents of this kind in the Soviet Union. This work had to be done from scratch, and on top of that in a complex situation of political instability in Latvia and a difficult situation in Russia.

In the set of questions that had to be resolved, of key importance was the problem of creating the conditions for Russia to withdraw its armed forces from Latvia in a dignified way within the framework of the principal political decision made on this account by the national leadership. Accordingly, for the Russian side the only acceptable term was to withdraw the troops in a deliberate order, within the time frame acceptable to it and, in the interests of strategic stability, without harm to the security of either side, while settling in the process the questions of social protection of military retirees and members of their families remaining in Latvia.

Solving this task in the Latvian instance was especially difficult for a number of objective factors. Compared to Lithuania and Estonia, the largest group of troops in the

Baltics was deployed here, with a personnel roster of 58,000. Being an important segment of the "front line" of defense of the former USSR, in terms of the number of depots of all categories of ammunition and weapons Latvia was a "powder keg." It was also the site of three military facilities of strategic importance for Russia: The early warning radar station in Skrunda, a space center in Ventpils, and a submarine base in Liepaja. The largest number of retired military (22,320) and members of their families (63,000) also live in Latvia. And finally, of all the three republics, it was in Latvia that the share of nonnative population—mainly Russians—comprised half the population of the country. All these factors represented the components of a volatile "cocktail," in which a danger of an explosion had to be eliminated as quickly as possible.

The time has not yet come to talk about many moments in this diplomatic marathon, but one has to mention additional difficulties born of the "childhood disease" of radicalism and right-wing nihilism which for a long time afflicted the Latvian side, with the Latvian partners turning the negotiation process into a sort of spectacle designed for internal political consumption.

By presenting at the first stage of negotiations conditions that were known to be unacceptable to the Russian side, and sabotaging quick completion of the main agreement on troop withdrawal, the Latvian side placed an emphasis in its tactics on mobilizing international pressure on Russia, demanding immediate troop withdrawal, or in essence the "capitulation" of its partner in the negotiations. Unfortunately one has to admit that this well-orchestrated pressure, which was launched in a number of directions, including the CSCE and the United Nations, was actively joined by many Western countries, which essentially turned a blind eye to the glaring gross and massive violations of human rights in Latvia and Lithuania.

The hypocrisy of many Western politicians toward Russia showed openly as never before. Was this not evident in the Council of Europe decision to accept Estonia as a member and link economic aid to Russia to troop withdrawal before a certain date, although the resolutions of the United Nations, CSCE, and even NATO contained the language of "orderly" withdrawal of troops on the basis of bilateral agreements! This was a very instructive episode for Russia, or to be precise, a lesson from the history of diplomacy which we should remember and from which we should draw appropriate conclusions.

Without waiting for the signing of the main agreement, already in 1993, at the initiative of the Russian side, nine intergovernment agreements were drafted and went into effect; they set the procedure for military personnel crossing the border and customs formalities during troop withdrawal, the procedure for passage of military vessels in Latvian waters and flights in Latvian air space, the use of rail transport in transportation of troops and military

cargo, setting up joint-stock companies at Russian military plants in Latvia, and others. This created a solid international law foundation for regulating individual and very important practical questions associated with the troop withdrawal.

The position favoring a "package" solution of the entire complex of issues associated with troop withdrawal, which was enunciated by Russian Minister of Foreign Affairs Andrey Kozyrev on 6 August 1992 and which the Russian delegation persistently defended up to the moment this package was signed, proved completely justified. This is not the time to talk about dramatic episodes of the battle that was being conducted from different sides and aimed at breaking up this "package" and in particular remove from it the agreement of military retirees and the agreement on the legal status of the radar site in Skrunda. The important part is that a package consisting of five agreements was initiated on 16 March on the level of heads of state, and signed on 30 April in Moscow in the course of the visit of President of Latvia Guntis Ulmanis; it included as a whole the agreement on terms and the time frame of withdrawal of the Russian Federation Armed Forces from the territory of Latvia and their legal status during the period of withdrawal, the agreement on social protection of military retirees and their families staying in Latvia, a protocol to this agreement, the agreement on social protection of military servicemen for the period of troop withdrawal, and the agreement on the legal status of the radar station in Skrunda.

The signing of the package of military agreements between Russia and Latvia and their implementation are undoubtedly a major event not only in their bilateral relations but also in international life. For the first time in the negotiations process with the Baltic states we were able to create a solid contract-legal base for a dignified withdrawal of Russian troops, a conflict-free solution to controversial issues associated with it, which allowed the volatile situation in this region to be defused. Thus, one "sore point" was removed in our relations with CSCE countries, Russia's international positions as a whole were reinforced, and a qualitatively new situation was created which seriously influenced the negotiation process with Estonia and Lithuania.

The international community welcomed the Russo-Latvian agreements, seeing them as a factor of strengthening security and stability in the region and Europe as a whole.

The lasting importance of the military agreements with Latvia lies in the fact that we have managed to accomplish troop withdrawal in the civilized way, avoid the threat of using force. This is an unquestionable achievement of Russian and Latvian diplomacy. The final result of their exceptionally difficult and unique work is a package of intercoordinated military agreements which represents a precisely calibrated balance between the national interests of Russia and Latvia.

This assessment is the answer both to Russian critics of these agreements and the militant national-radicals in Latvia, who dubbed these agreements the "Zotov-Virsis pact." There were no winners or losers in the Russo-Latvian negotiations. The package of documents signed in the Kremlin was the manifestation of high state and international responsibility on the part of the heads of two states; it is the victory of common sense.

After 31 August the future of the Russo-Latvian agreements will depend first and foremost on Latvia, where acute internal political fights continue around the aforementioned agreements. We are deeply concerned over the foot-dragging on the part of the Latvian Saeima with respect to ratification of the treaty and agreements on military retirees, which have been in force from the date of signing but on a "temporary basis." I would rather not think about the worst case scenario, but if ratification of the agreement on retirees is derailed, it is not hard to see what additional harm will be done to the cause of normalization of bilateral relations, which has not yet recovered from the blow dealt to it by the discriminatory Latvian law on citizenship.

Russia, for its part, intends to resolutely insist on respect for human rights, the rights of its compatriots in Latvia, and the carrying out to a full extent of the treaties and agreements signed with it. I am sure that to this end the Russian leadership will apply all international law, political, and economic measures of influence at its disposal that would be commensurate with the situation.

I would like to hope that in the final analysis Russia will not have to resort to such measures. The profound interests of Russia and Latvia dictate the need for a solicitous attitude and further increase of the positive potential built into the military agreements and the 20 other intergovernment agreements signed as a result of the negotiations between the state delegations of the two countries.

Russo-Ukrainian Border Cooperation Agreement

944K2249A Kiev MOLOD UKRAYINY in Ukrainian
26 Aug 94 p 2

[Text of Agreement between Ukraine and the Russian Federation Regarding Cooperation and Reciprocal Action on Border Issues]

[Text] Ukraine and the Russian Federation

confirming their support of the Agreement between the Ukrainian Soviet Socialist Republic and the Russian Soviet Federated Socialist Republic of 19 November 1990 and the Agreement between Ukraine and the Russian Federation on the continued development of interstate relations of 23 June 1992,

believing that the continued development and strengthening of friendly and good-neighbor relations and cooperation between the Parties are accordant with the fundamental national interests of their peoples and serve the cause of peace and security,

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expressing an interest in effective cooperation in resolving practical issues relating to the protection of their state borders and special economic zones,

desiring to implement the principles of the Memorandum on Cooperation in Protecting State Borders signed by the heads of state of the Republic of Belarus, the Russian Federation, and Ukraine on 15 April 1994, have agreed to the following:

ARTICLE 1

The Parties shall cooperate in making effective and mutually beneficial use of forces and means in the interests of protecting the state borders and special economic zones of Ukraine and the Russian Federation.

ARTICLE 2

To ensure the concrete realization of measures to implement this Agreement, the Parties charge the Commander of the Border Troops of Ukraine and the Commander in Chief of the Border Troops of the Russian Federation to draw up by mutual agreement the necessary protocols to promote reciprocal action and cooperation between the border departments of the Parties.

ARTICLE 3

To settle operational questions that arise on the state border, the Parties shall appoint border representatives (commissioners) and organize their work.

ARTICLE 4

The Parties shall ensure a timely exchange of information of interest to both sides concerning the situation on the state borders.

The procedure for exchanging information is established in a separate protocol.

The use of archival materials belonging to the border troops of the Parties shall be by consent on the basis of an agreement.

ARTICLE 5

The Parties shall maintain the existing communications channels in working order and, if necessary, shall take joint steps to create new channels of communications between the border troops of the Parties.

Each Party shall pay for the use of the communications channels on its territory.

ARTICLE 6

The Parties shall cooperate in ensuring the security of information about the activity of their border troops.

The Parties pledge not to pass on to anyone materials and information of an official and confidential nature

received from each other without the written consent of the Party from whom these materials and information were received.

ARTICLE 7

In the interests of protecting their state borders, the Parties shall cooperate in operational and investigative activities.

ARTICLE 8

The Parties shall take steps to ensure that their border troops, acting in cooperation with the appropriate organs of Ukraine and the Russian Federation, carry out agreed-upon measures on the state borders to prevent terrorism, the illegal transfer of weapons, narcotics, and other contraband goods, the illegal entry [of persons] into the territories of the Parties and departure from these territories, as well as other kinds of crimes, the combatting of which falls within the jurisdiction of their border troops.

ARTICLE 9

The Parties shall coordinate the actions of their border troops in controlling the waters of the Sea of Azov and the Kerch Strait.

ARTICLE 10

The procedure for conducting administrative and other activity on the state border between Ukraine and the Russian Federation, the points and procedure for allowing individuals, means of transportation, and freight to cross the Ukrainian-Russian border shall be determined by the Parties in separate agreements.

ARTICLE 11

If necessary, the border troops of the Parties shall assist each other in the training of officer cadres and junior specialists on a contractual basis, depending on the resources of educational institutions, training centers, and the units of the border troops of the Parties.

ARTICLE 12

The Parties shall recognize the validity of military ranks and educational status, confirmed by the appropriate documents, and of documents regarding military service and job designation in the border troops of the former USSR, Ukraine, and the Russian Federation.

ARTICLE 13

The Parties shall assist each other in supplying their border troops with materials and equipment, in placing orders, and in the development, production, supply, and

repair of the technical means for protecting state borders and of weapons under conditions to be stipulated.

ARTICLE 14

The Parties shall provide on the basis of agreements admission to their medical treatment and prevention facilities for examination and treatment (hospitalization) for the servicemen and pensioners of the border troops of Ukraine and the Russian Federation and the members of their families, as well as issue passes to departmental sanatoriums and rest homes at the expense of the Party sending people to these facilities.

ARTICLE 15

In order to ensure the fulfillment of the mutual obligations stipulated by this Agreement, as well as to resolve issues that arise in the process of cooperation and reciprocal action, the Parties shall, if necessary, hold consultations or create joint working groups.

ARTICLE 16

This Agreement does not affect previously assumed obligations by the Parties with respect to other states and is not directed against third countries and their interests.

ARTICLE 17

This Agreement shall come into force on the date it is signed and shall remain in force for five years, after which it will automatically be renewed each year for a period of five years if neither Party expresses a wish to invalidate this Agreement. If one of the Parties wishes to abrogate this Agreement, it must inform the other Party of this in writing at least six months prior to the expiration of the next five-year period.

Drawn up in the city of Odessa on 3 August 1994 in two copies, each in the Ukrainian and Russian languages, both texts being equally valid.

For Ukraine [signed] V. HUBENKO

For the Russian Federation [signed] A. NIKOLAYEV

ECONOMIC & SOCIAL AFFAIRS

'Tibet' Concern Threatens to Collapse

944F1388A Moscow IZVESTIYA in Russian 27 Aug 94
p 1

[Article by Ivan Zhagel, IZVESTIYA correspondent: "Thousands of Investors Have Fallen from the Top of 'Tibet'"]

[Text] August of 1994 can surely go down in the history of Russia's perestroika as a month of financial scandals. Immediately after the MMM joint-stock company and the Russian House of Sells joint-stock company, the well-known Tibet concern closed accounts with its clients.

The concern's leadership gave as the reason for its decision the fact that the Ministry of Finance and the Central Bank of Russia were obstructing their activity. What is more, Tibet announced that it will not renew payments to clients until the Central Bank issues it a bank license.

Unfortunately, it must be noted that the blackmail of state organs and the attempts to stir up ordinary citizens against them, and in this way to avoid responsibility, are becoming a common practice of commercial structures. In any case, neither the Ministry of Finance, nor the Central Bank undertook any "punitive" measures with respect to Tibet, and the continuous appeals to the leadership of the concern to bring its activity into conformity with normative documentation can hardly fall in this category.

And the last statement of the Central Bank, which was literally disseminated the other day, can be considered extremely soft. It states that a number of companies, although they attract people's money on the basis of so-called loan contracts, in essence are performing bank operations. However, they do not have bank licenses, as a result of which the Central Bank does not monitor them and cannot guarantee their reliability. Tibet is mentioned among these companies.

Moreover, as I was informed at the Central Bank, the leadership of the concern, evidently, realizing that it was impossible to work any longer without legal justification, submitted an application to acquire a bank license. However, this was only done on 14 July. But the minimal period for the examination of such applications is three months, which, incidentally, is a lot less than in the majority of developed countries. Thus, to accuse the Central Bank of any kind of deliberate infringement of the concern's rights is simply absurd.

In addition, the Central Bank believes that there are no reasons at the present time to deny Tibet the acquisition of a bank license. However, the submitted documentation has a number of deficiencies that can be eliminated in the course of work, and this is exactly what is being done now. But, while agreeing with the requirements of the Central Bank, the concern's leadership for some

reason is putting forth unfounded claims and is complaining about the impossibility of working under such conditions. It is even stranger that Tibet worked quietly without a license for many months and that it cannot now issue money to investors without it.

The Ministry of Finance also rejects accusations of infringing on the rights of the concern. In an interview for IZVESTIYA, Bella Zlatkis, the chief of the securities office, declared that Tibet was given a period until 1 January 1995 to bring its activity into compliance with the law, so that it does have time. In addition, the concern is performing banking operations and, therefore, it would seem to be outside the jurisdiction of the Ministry of Finance. It is true that a half year ago the leadership of this company applied to the Ministry of Finance for the acquisition of a license, but it was not very clear what kind. And the matter ended there.

In the opinion of B. Zlatkis, the reason for the cessation of payments to clients is not the machinations of state organs, but the financial problems of the concern itself. However, she did not begin to claim that Tibet used the "pyramid" principle in its work, but, as a professional economist, she believes that the activity of the company was always very risky and that it is difficult to guarantee the interest that it is paying on investments.

Thus, it often turns out that ordinary citizens end up one on one with a commercial structure that infringes on their rights. It is good that the state organs are not guilty of Tibet's problems, but, at the same time, it is also bad that allegedly they do not have any connection with this.

Ecologically Clean Power Complex Commissioned

944F1394A Moscow IZVESTIYA in Russian 30 Aug 94
p 2

[Report by IZVESTIYA correspondent Georgiy Stepanov: "For the First Time, Electric Power in Russia Becomes Clean"]

[Text] The first power generation complex in Russia, which will operate without producing toxic and heat emissions into the atmosphere and, most importantly, save up to 30 million cubic meters of natural gas annually, was put on line at TETs-21 [heat and power plant] in Moscow.

For decades we dealt with the shortage of electric power in our countries by building endless TETs operating on natural gas or other organic fuel. Ecological and economic aspects were considered of little importance. There is, however, hope that this approach will soon become a thing of the past once and for all. To a considerable extent thanks to the efforts of the Kriokor joint-stock company [AO]. It utilizes technological ideas, one of which was proposed more than 40 years ago by Russian Academician Millionshchikov. It is a method of generating cheap electric power based on the utilization of gas energy in gas mains.

The new equipment put into operation at TETs-21 was fully designed and built by AO Kriokor without state financing. The project was financed (expenditures amounted to about R6 billion) by Stelichnyy bank (which, in addition to all other things, is our newspaper's partner in sponsoring the international hockey tournament).

The system installed at TETs-21 produces (by reducing gas pressure in a special unit) not only electric power but also cryogenic products: liquid nitrogen, oxygen, and argon used in industry and medicine. This is one of its technological and exploitation special features. It is possible that in the not-too-remote future all outpatient clinic and hospitals in Moscow will be supplied with free oxygen.

This, however, will happen only if the Kriokor energy complex is installed at a majority of the 26 Moscow TETs operating on natural gas. Four such systems have already been built, and next year AO Kriokor plans to build another 10-12. For the European part of Russia, where gas is the main type of fuel, about 100 will be needed. So the tasks set are grandiose. The joint-stock company has dozens of customers—for instance, from Ukraine, where one such system is already being built. "There is nothing more expensive today than energy, and therefore it makes sense to invest in this business," Yuriy Luzhkov said at the complex's opening. I would like to believe that some day we will also feel the effect of this undertaking in that the rates for electric power in our apartment stop rising.

Possible Future of State Television Reported

944F1394B Moscow OBSHCHAYA GAZETA
in Russian No 34, 26 Aug 94 p 13

[Report by Irina Petrovskaya under the rubric "Projects": "Quite Possibly Only One Television Channel Will Soon Be Left in Russia"]

[Text] ...And happiness was so possible, so close—in December of last year, when it looked as if the fate of domestic state television was already decided. The country's first persons were openly talking about converting television to joint-stock ownership, promising to pay its debts to the Ministry of Communications and ensuring a decent existence for the television that remains owned by the state. It looked like just a little bit more, and the rusted, rotten throughout, unwieldy juggernaut would be written off, cut up into scrap metal, and in its place a mobile, modern television would be built that will meet the requirements and needs of the times and society.

Eight months have passed since then! Nothing has happened! As before, the state did not have any money for its own television. People working in state companies got tired of instability, endless rumors of reductions in force and imminent reform. Therefore, state television slowly but surely crept into stagnation—this notion describes best the creative state of both Ostankino and RTV

[Russian Television]. The signs—absence of programs—events and programs—leaders, the extinction of formerly bright and noticeable programs, a clear deficit of new ideas, and the preponderance of commercial "pop culture" and amoral advertising. The state companies' efforts to patch the well-worn clothes through their own efforts—cutting daytime programming, making money on advertising, and centralization of the latter—look miserable and forced against this background. It is unlikely that the art of cutting and sewing will bring television new successes. It is obvious that the entire system needs to be changed. Television-related power structures do indeed have such plans. As we learned simultaneously from several trustworthy sources, a scenario for merging two state companies into one, all-Russian, is in the works. This will lead, respectively, to personnel cuts in both companies and the elimination of many programs—both in Ostankino and RTV. Some programs that will not fit into the first channel will remain on the second. The freed slots and air time on the second channel will allegedly go to the NTV company, whose audience in this case will sharply increase. And the fourth channel, which NTV will vacate, will be divided between independent broadcasters and will end up in the hands of notorious commercial structures. All this will make it possible to cut the expenditures appropriated for state broadcasting. At the same time, this money should be sufficient to support one, but of normal quality, all-Russian channel. It is hard to vouch for the complete veracity of this information—rumors of imminent reform of television pop up regularly. But something needs to be done: The ownerless, impoverished state television, which is put in the position of having to earn money for its existence by any, even questionable (like in the situation with the MMM joint-stock society) means, in essence discredits the state. Potential changes in state television's structure will take place (if they take place) in September, after the national and state companies' leaderships return from their vacations.

Government Commission Takes Steps on Nonpayments Problem

944F1423A Moscow NEZAVISIMAYA GAZETA
in Russian 27 Aug 94 p 2

[Article by V. Sanko: "Soskovets Shows Some Character"]

[Text]

Budget Funds Secured from Commercial Banks

Regulatory documents establishing the order in which standard format drafts are to be used were discussed at the last session of the government commission on perfection of the system used for payments and settlement of accounts. In the opinion of Sergey Dubinin, acting minister of finance, the introduction of the promissory note and the bill of exchange for settlement of accounts between enterprises will become a reliable tool for

resolving the question of nonpayments, while helping them to lower requirements for working capital and strengthening their financial discipline.

According to Andrey Kazmin, deputy minister of finance, it was decided that the second issue of R600 billion of treasury bills will be used to pay for the defense order. That decision is one of the measures studied by the commission for liquidation of budgetary indebtedness both for the defense order and to other branches for products supplied by them last year as well as this year.

The mechanism for settlement of mutual budgetary indebtedness in the current financing of TEK [Fuel and Energy Complex] enterprises and their tax deductions into the federal budget was also studied.

The decision concerning transfer of budget accounts at all levels to establishments of the various banks of Russia and the federal treasury was adopted "for the purpose of efficient management of state funds." That decision (the authority of the commission is such that adoption by the Council of Ministers is not required) may evidence either certain dissatisfaction of the government with the manner in which the budget is serviced by commercial banks (which is unlikely) or the fact that the government decided to protect itself against any retaliatory action by them in response to government decisions in the near future that are unacceptable to them, i.e. raise the manageability level of budget funds. It is not clear so far, however, whether the central directive will be implemented by local organs of power since banks pay interest on the balance.

Economist Bunin on Progress of Government Program

944Q0574A Moscow TRUD in Russian 31 Aug 94 p 2

[Interview with economist Pavel Bunin by Igor Ostrovskiy; place and date not given: "Where Are We? Where Are We Headed?: The Well-Known Economist Answers the Questions of a TRUD Correspondent"]

[Text]

[Ostrovskiy] Pavel Grigoryevich, in the third year of the reforms it is hard for the "ordinary man" to understand where we have arrived, what we have, and what we may expect.

[Bunin] The government believes that the worst is behind us inasmuch as the rate of inflation has declined from 30 to 6 percent a month. The opposition is talking in response about crisis and catastrophe since two-thirds of the capacity in industry is idle and since not a day goes by without further news of the stoppage of enterprises....

[Ostrovskiy] Who is closer to the truth?

[Bunin] It depends on what is considered the truth. Neither the rate of inflation nor the load of production capacity taken by themselves tell us anything. The main indicator, on the other hand, for the sake of which

governments exist, inflation is fought, and industries are loaded, is the **living standard** of society and its consumption. We will find examples in recent history of people in countries with inflation in the hundreds of thousands of percent a year living better than in the former Union in periods of the greatest financial stability. Just recently Argentina and Yugoslavia were considered the record-holders in terms of the rate of inflation. But did we not envy the living conditions of people in these countries? Nor does a low rate of inflation or its absence tell us anything. Some economists admire the experience of Ukraine and Kyrgyzia, which in the past 18 months have succeeded in lowering the rate of inflation considerably. They are being counterposed to Russia. But where do people have the better life? In Russia, undoubtedly.

So if we are talking about where we have come to as of late, let us take account merely of the changes that have occurred in people's living conditions. There is no complete and clear picture here, unfortunately.

[Ostrovskiy] Why?

[Bunin] What data to employ? Whatever department you take, it has its own accounting. At the enlarged session of the government in July Viktor Chernomyrdin said, not without pride, that in the first six months real per capita income had grown 12 percent and had outpaced the increase in prices. But the government program, on the other hand, ornately entitled "Results of the Socioeconomic Development of the Russian Federation in the First Six Months and Tasks for the Coming Period," says that the growth of income **matched** the growth of prices. The main task for the second six months is to prevent a decline in the living standard.

According to government figures, 13 percent of Russians are living below the subsistence level. The Ministry of Labor believes this figure to be 16 percent. According to data of the Ministry of Labor Research Center, such Russians constitute 38 percent. You see the spread? The same thing with unemployment also. If we count according to the ILO methods, we have 4.5 million unemployed and just as many that are temporarily out of work. This being the case, why are only 900,000 persons receiving of unemployment benefit? Or is the number of those in need of it determined according to another set of methods?

[Ostrovskiy] What do you think? Has there been a change in people's real living conditions?

[Bunin] We need to talk not only about the poorest and the wealthiest but also about the bulk of the population. The picture here, as I see it, is as follows. Approximately one-fifth of the population is now 3-5 percent worse off. Life for just as many has improved by the same amount. And for a further one-fifth there has been no change. Consequently, it may be said that **there were no appreciable changes in the living standard in the first six months for 60 percent of the population.** But the average data on income growth point to appreciable changes at

the highest and lowest levels of society. The well-being of the **20 percent wealthiest** receiving up to 44 percent of all income rose **25 percent** in the first six months. The living standard of the **poorest 20 percent**, which account for only 6 percent of income, declined in the same period by a further **3-5 percent**. As you can see, the property polarization of society is intensifying very rapidly.

[Ostrovskiy] Scholarship and, at its instigation, the news media have accustomed us to the main slogan of contemporary capitalism—the more rich people there are in society, the fewer poor people it has. What, is it not true?

[Bunin] It is true for a society in which it is possible to get rich mainly thanks to the development of production, the creation of new jobs and new commodities, and the introduction of the achievements of research. In our society, at its present stage, the sources of enrichment are different and unconnected with production. They are financial machinations, speculation, and other malfeasance that does not create national wealth. And unless the sources of enrichment change, the wealth of the country will shortly be concentrated in the hands of very few people—with all the ensuing consequences. Social explosions included.

[Ostrovskiy] It follows from what you say that the present condition, in which the well-being of the majority has not changed, will not last for long.

[Bunin] It could persist in two cases, temporarily at that. If there is a reduction in the allocations for the accumulation fund. Part of it would automatically be transferred to the consumption fund. In other words, the living standard may be maintained by **eating through** the national wealth, which is what is happening. There is another way also—increasing import purchases. But this is not happening here, import purchases, consumer goods and food included, are declining. So unless we overcome the slump in production in the very near future, revitalize it, the state will be unable, most likely, to maintain Russians' living standard even at the present level.

[Ostrovskiy] How is production to be revitalized under our conditions, when the mass of people have no money, inflation continues, and unemployment is growing?

[Bunin] This can be achieved. I shall try to show how. But, first, a few words about the causes of the recession....

[Ostrovskiy] We often hear that they consist of the severance of the traditional production relations determined by the disintegration of the USSR....

[Bunin] This is a reason, but it is not the main one. The production that we inherited from the former USSR is technologically inefficient. It was oriented toward cheap energy and practically unpaid human labor and was managed by centralized administrative methods in the interests of the militarization of the country. As a result we are today making what the market does not need—

low-quality goods. Too much in the way of energy and materials is being expended on their production.

We may speak about the arrears, the absence of market thinking in the industrial managers and localized credit, and much else. But the main thing remains, for all that, the distorted structure of our industry and the entire national economy.

[Ostrovskiy] An enormous amount of money is needed for a change in this structure and the modernization of industry. Where is it to come from?

[Bunin] In our country we have for this enough in the way of internal resources, not subject to inflation, of which we have yet to learn to avail ourselves.

[Ostrovskiy] Where are they, of what do they consist? If it is not a secret.

[Bunin] It is not a secret. The resources are known well enough to the world and have repeatedly shown their very high efficiency, under conditions far more complex than with us also. First and foremost, **the rational use of depreciation allowances**. Even in the best years these allowances have in the structure of our capital investments not exceeded 7 percent. This is the worst indicator in the world, where the proportion of depreciation in the expenditure on the retooling of production is in excess of 30 percent. But 7 percent applied to our best years. Today the situation is such that it is more beneficial to eat through the depreciation, not use it for the development of production, inasmuch as it is tax-exempt. There will always be smart operators that steer depreciation into wages, not build with it and not purchase new equipment.

[Ostrovskiy] And what needs to be done to ensure that it be profitable not to eat through depreciation but to use it in the interests of production?

[Bunin] What is done in the civilized world. Take into consideration the results of the revaluations of the fixed capital, of which there have already been several. And the state—establish increased rates of depreciation and keep a close watch on the intelligent and efficient use of the allowances. Fine and punish those that eat through this money. Up to and including criminal liability....

[Ostrovskiy] Government diktat once again? What about the freedom of the market economy?

[Bunin] Unthinking prodigality is contraindicated for freedom. In any country the state monitors the use of depreciation allowances inasmuch as it exempts them from tax and has an interest, therefore, in the money being spent on the development of production. When Japan and Germany needed money for the renewal of industry, they required the entrepreneurs to transfer to the depreciation funds up to one-third of the cost of the equipment in its first year of operation. Were we to operate thus, the depreciation allowances would be a lever capable of getting our industry moving. There are

many methods and ways of protecting this money against inflation, what is more.

The second reserve is the issue and **unrestricted sale of the stock of enterprises** in whose development society has an interest. The population does have money, for all that, and a very substantial amount, what is more. According to official statistics, up to 19 percent of income was channeled into savings in the first six months. This is R23-25 trillion over a year. The MMM Stock Company showed how with advertising in the mass media this money can be collected and accumulated. I refer once again to the experience of Germany and Japan. Both formerly and today they have developed their industry **thanks to public money**. And if our government understands this and can explain to people that money needs to be invested in production and commercial structures, not in purely financial structures, the country will undoubtedly acquire the funds necessary for a renewal of production and a revitalization of the entire economy.

A third source of funds for investment is **part of the profit of industrial enterprises**, which should be used for development and the accumulation of public wealth. According to the most modest estimates, these three sources of funding could produce up to 70 percent of the resources necessary for the modernization of production.

[Ostrovskiy] What would all this give us?

[Bunin] All that we need: jobs, the utilization of enterprise capacity, profits, an opportunity to manufacture competitive products, **a rise in people's living standard**. All that we lack currently. Bear in mind, there is no other way of altering the economic situation in the country. The whole world knows that retooling and investments are the sole path toward stable prosperity.

[Ostrovskiy] You have cited profit as a principal source of funds for investment. Can we speak seriously about this under the conditions of our fiscal taxation?

[Bunin] Our taxes are a special subject. You are right, unless the system of taxation is revised in the very near future, total paralysis of production awaits us. Do you know that our commodity producers have to pay 44 direct and indirect taxes? That they help confiscate up to 45 percent of the newly manufactured product? Not of profit, of the domestic gross product. This also is a world record inasmuch as the commonly accepted values do not exceed 15-17 percent. Briefly put, the solution, in my view, consists of the urgent exemption from taxation of a substantial part of profit. And what the budget loses should be compensated at the expense of the wealthiest and most extravagant part of society. How to do this with the aid of a progressive income tax, excise taxes, and rent is well known in the world.

It is hard, understandably, in one interview to encompass the entire diversity of problems of the extrication of

our economy from the present most acute crisis. The newspaper is prepared to continue the publication of interviews with the prominent economist, if this is what TRUD readers would like.

Industrialists Union Report on State of Economy Presented

944F1409A Moscow NEZAVISIMAYA GAZETA
in Russian 25 Aug 94 p 2

[Article by Sergey Rybak: "Industrial Growth Is Predicted: RUIE Forecasts Orientation of the Economy on the Domestic Market"]

[Text]

Reforms

A group of experts of the Russian Union of Industrialists and Entrepreneurs [RUIE] presented a report in the Russian-American press center—"Which Way Will the Pendulum Swing?"—devoted to an assessment of today's situation in the Russian economy and a forecast of its development. It is expected that the report will be submitted to the government, the president, and the State Duma in a day or two.

It seems that the leading experts of the institute of the RUIE paid more attention when presenting the report not to an economic evaluation of the reforms that have taken place in the country but to the moral side of the matter. In the opinion of Andrey Neshchadin, who is engaged in the development of part of the report devoted to economics, some of the most significant consequences of the conduct of economic reforms to the present were the criminalization of the conscience of the population, the unjustifiably difficult social effects, and the drop in production. In Mr. Neshchadin's words, the emergence of corruption and the turbulent growth of the criminal element today is in many ways associated with the development of the black market. According to the information of the economist-industrialist, on the order of 8-10 million Russians who do not pay taxes to the state work in the shady sector of the economy. They have to pay mafiosi instead of the state. The population's awareness of crime also has an effect at the level of everyday life—almost no one wants to pay taxes correctly and in a timely way. In Mr. Neshchadin's words, enterprise directors are also imbued with criminal psychology. Many of them deliberately organize nonpayments—they do not withhold money for debts and for accounts to pay taxes. In Mr. Neshchadin's opinion, the introduction of a normal institution of bankruptcy, when it would be impossible for a director to resolve his problems with such methods, could change this situation.

The outlook for development of the country's economy looks brighter. RUIE experts predict low rates of increases in inflation in the near future and also the possible beginning of stabilization and an increase in

production next year. Andrey Neshchadin agrees with the opinion that prevails among many government officials that the level of inflation this year will not exceed 5-7 percent. This will not even be influenced, in his opinion, by a possible large ruble emission by the Central Bank. By that time, money simply will be unable to cause the currency market to fluctuate. The situation with respect to structural changes in the economy is seen as more complicated. Today, approximately one-fourth of all industrial enterprises have adapted well to market conditions. The level of production here is not falling, and it is even increasing in some of them. It is this kind of enterprises that will become the engine of Russian industry and points of a breakthrough and a rise in production, after which the situation will also get better in some other plants and factories. It will be most difficult of all in the near term for average firms. It is many enterprises like this that face ruin because of competition. The fate of small firms does not threaten the majority of industrial giants. The state, in Mr. Neshchadin's opinion, will never allow such giants as ZIL [Likhachev automobile plant] to die.

Macroeconomic changes will depend on three main trends along which the Russian economy is developing today. This is trade in fuel and raw materials, the development of high technology products, a significant portion of which is designated for export, and also the orientation of the work of enterprises basically on the domestic market. It is most likely that the emphasis in the development of the economy of Russia will be placed specifically on the work of enterprises mainly for the needs of the domestic market.

The report, in the words of Mr. Neshchadin, will be turned over to the government in the next few days, where, according to his information, the opinion of RUE experts is heeded.

'Most' To Dispute KGB, Crime Charges

94F1431A Moscow NEZAVISIMAYA GAZETA
in Russian 26 Aug 94 p 2

[Interview with Professor Viktor Mozolin, chief scientific (legal) adviser to the Most Group, by Andrey Streletskiy; place and date not given: "Most Group Against Dow Jones and Michael Waller: A Major Case Looming"]

[Text] NEZAVISIMAYA GAZETA has already reported twice (on 18 and 24 August) on a conflict between the Most Group and the Dow Jones Company, which publishes THE WALL STREET JOURNAL EUROPE, where on 22 June of this year an article by Michael Waller was published, entitled "The Biggest Mafia Is the KGB." The Most Group, which regarded as slanderous the accusations of corruption and mafia activities expressed by the author of aforementioned article, filed suit in the British High Court. The details of this case were explained to a NEZAVISIMAYA GAZETA correspondent by Professor Viktor Mozolin of the State and

Law Institute of the Russian Academy of Science and chief scientific (legal) adviser to the Most Group.

"The plaintiff is Vladimir Gusinskiy, head of the Most Group," Mr. Mozolin told us. "According to British law, a limited liability partnership, which Most is, is not considered a legal entity and therefore cannot act as a plaintiff. The respondent is the article's author Michael Waller and Dow Jones Publishing Company Europe, the publisher of the magazine in which the article appeared. A corresponding civil suit was initiated on 11 August in London's Supreme Court. To defend our interests we engaged a group of English jurists from the law firm of Cameron Markby Hewitt and also the American law firm Sherman and Sterling.

[Streletskiy] What was the opponents' reaction to your action?

[Mozolin] As procedure requires, we sent letters to potential respondents, proposing a public apology and compensation for damages. The publisher replied twice. The substance of their replies: Freedom of press assumes the author's full responsibility for the contents of some or other material. However, from the standpoint of British law this is incorrect, and we know this very well. Mr. Waller still has not replied.

[Streletskiy] When did you contact him?

[Mozolin] Some time in the beginning of July. In addition, we sent a letter to West Review Press House publishing house in the American state of Colorado, which is planning to publish Waller's book "The Secret Empire: The KGB and Russia Today." We asked them to suspend the publication if the book mentions Most in the same spirit as was written by Waller in THE WALL STREET JOURNAL EUROPE. We received the following reply: "We have looked through the book's proofs with this subject in mind. There is nothing in the book about the Most Group or Mr. Gusinskiy. This is probably because Mr. Waller received particular information related in his newspaper article before [as published] we began production of his book." We will soon have the text of the book.

[Streletskiy] Is there a deadline by which a respondent such as Mr. Waller has to reply to the plaintiff?

[Mozolin] By British law, after the case is initiated the respondent has to reply in writing within 14 days. Thus, we are close to the deadline.

[Streletskiy] What is the amount of compensation sought by the Most Group?

[Mozolin] In English law, all civil complaints are divided into two groups. One is comprised of complaints where the plaintiff knows the exact amount he wants the respondent to pay (for instance, in cases of default on debt obligations). The second are complaints where a precise amount cannot be named by the respondent [as published] at the inception of the case. The problem will

be discussed in court, and the final decision rests only with it. In cases of defamation (such as ours) concrete amounts are not specified. Our complaint has this wording: The respondent is asking compensation for damages caused by the libel published by respondents in such and such place. We do not have the right to specify the amount of damages.

Before the court hearing there is a whole number of interim phases. We will exchange evidence, and each side will decide whether it wants to continue litigation. If the respondent sees that our evidence is stronger than his objections, he may suspend the litigation and then we will be discussing the amount of compensatory damages. They consist of two parts. The first are the expenses we are already incurring in paying for attorneys' work. This can be determined absolutely precisely.

[Streletskiy] I assume they are not minor, are they?

[Mozolin] They are considerable! For instance, the hourly rate of the English attorney who is handling our case is 250-350 British pounds. In addition, if the case goes to court, our interests will be represented by one of the four best English barristers. In short, money is no object for us!

[Streletskiy] What does the second part of the compensation consist of?

[Mozolin] It is a monetary estimate of compensation for the material and moral damages sustained by the Most Group. This is determined by the court.

[Streletskiy] Has the Most Group ever been party to such litigation?

[Mozolin] This is the first such instance abroad. And overall, this will be a very major case.

[Streletskiy] I heard that the Most Group has also filed suit against the INTERNATIONAL HERALD TRIBUNE newspaper...

[Mozolin] No, we have not yet filed suit against this publication. English attorneys authorized by our company sent a letter to them and asked for an apology, as well as payment of compensatory damages sustained by the Most Group as a result of the article by famous Sovietologist Marshall Goldman.

[Streletskiy] What did he write, briefly?

[Mozolin] The article is not specifically on the subject of Most—it deals with the MMM scandal. Goldman believes that MMM is a product of deteriorating Russian culture. He criticizes Yeltsin for creating preferential conditions for privatization in Moscow, Luzhkov—for corruption, and, again, Most for allegedly being controlled by the mafia. In short, Goldman used unfounded clichés in the style of ZAVTRA.

[Streletskiy] Have you received a reply to your letter?

[Mozolin] Not yet. But, as our English attorneys tell us, there has been an instance when the aforementioned newspaper did apologize.

Concern Voiced Over Status of Refugees

944E1163A Moscow KOMMERSANT-DAILY
in Russian 18 Aug 94 p 4

[Report by Svetlana Sukhova: "It Is Not Easy To Distinguish the Refugee From the Immigrant: United Nations on Russia's Refugees"]

[Text] The United Nations is concerned that Russia lacks the legal framework for formalizing the status of a political immigrant and refugee. This statement was made yesterday by Ron Redmond, representative of the UN High Commissioner on Refugee Affairs mission. The United Nations is especially riled by the "unlawful methods of Russian authorities" with respect to refugees on the republic territory.

The United Nations is concerned that expulsion from Russia of 20 Afghan refugees may become "the beginning of a large-scale campaign of expelling from Russia those who are considered here illegal immigrants but in reality are true refugees." As is known, the Afghans were arrested in Krasnodar Kray and then sent on a military plane to Uzbekistan, from where last Monday they were sent over the border to northern Afghanistan. According to Mr. Redmond, this group included seven orphans, who emigrated to Russia 10 years ago when they lost their parents. They have quite settled in Russia by now and lost all contacts with the land of their birth. In the commission's opinion, in Afghanistan they "will be face considerable danger," since most of the 70,000 Afghan refugees living in Russia had ties with Kabul's communist regime and "for quite understandable reasons are afraid to return to their homeland." The UN mission of refugee affairs organized an action of protest in Moscow against such actions of the Russian authorities. In Mr. Redmond's opinion, the forcible return of 20 Afghans to their homeland represents a "violation of norms and principles of international laws on refugees and human rights." At the same time, the mission representative noted that although Russia had signed the 1951 convention on refugees, it still has not put together analogous legislation on its territory. USIA ((United States Information Agency)) correspondent in Europe Wendy Lyubetkin reports that according to the UN mission data, in addition to Afghans, tens of thousands of refugees from other countries currently live in Russia, including those from Somalia, Iraq, Iran, and the Caucasus states. They got "bogged down in legal controversies," since Russia still has not defined for itself the status of a political refugee. For all practical purposes, in the UN mission's opinion, the situation has no resolution: Moscow says that the refugees on its territory are not refugees, since they "have not filed official petitions to grant them political asylum," while the United Nations points out that they could not have done so, since no proper

procedure for it exists in Russia. Mr. Redmond notes that the expulsion of Afghans took place against the backdrop of "a growing xenophobia and dislike for foreigners in Russia." Besides, it turns out that the UN is flooded with letters from "Russian" refugees complaining of "constant intimidation and arrests, as well as all sorts of oppression on the part of Russian law enforcement organs." An attempt of the UN Moscow bureau to legalize their stay here by issuing identification papers was halted by the militia, which does not consider these identification papers legitimate. Which, actually, considering a sharp rise in crime among illegal immigrants from CIS countries, is quite understandable. What is hard to understand is why the United Nations is not getting involved in normalizing the refugee situation by similar methods in the United States or France.

Russia Accused of Dumping Cheap Diamond on World Markets

944E1162A Moscow NEZAVISIMAYA GAZETA
in Russian 19 Aug 94 p 2

[Article by Faina Osmanova: "DeBeers Accuses Russia. Sales Volumes Increased by \$37 million. Diamonds"]

[Text] As was announced, payment of intermediate dividends by DeBeers Consolidated (Issue No. 149) in the amount of 38 cents RSA ((Republic of South Africa)) per joint term share and also deposit dividends of the Centenary Company (Issue No. 9) in the amount of 15 cents U.S. will occur on Wednesday, 2 November 1994 for holders of joint stocks registered before the beginning of the business day on Friday, 16 September 1994. From 17 through 24 September 1994, there will be no registration of shares.

The sales indicators for diamonds of the TsSO [Central Distribution Organization] increased during the first half of 1994 and reached \$2.58 billion as compared to \$2.543 billion during the corresponding period of 1993 and \$1.823 billion (RG [expansion not given]—154 million) during the second half of last year.

Indicators of retail sales of jewelry items correspond to the figures for 1993, but the overall improvement of the situation in the world economy has brought about hopeful predictions with respect to the demand for jewelry items with brilliants. But, the DeBeers press service says, in spite of the existing predictions, business confidence in the diamond cutting centers has dropped because of the appearance on the market of relatively inexpensive batches of Russian diamonds.

At the present time negotiations are being conducted with leaders of the Russian diamond industry, one of the results of which, according to DeBeers information, was the expression of their public support for the cause of preserving stability on the diamond market.

State Committee Chairman on Conversion Program Implementation

944F1345A Moscow NEZAVISIMAYA GAZETA
in Russian 18 Aug 94 pp 1-2

[Interview with Viktor Glukhikh, chairman of the State Committee on Defense Branches of Industry, by Faina Osmanova; place and date not given: "Viktor Glukhikh: 'Defense Enterprises Have Adapted to the Market' But, in the Opinion of the Chairman of the State Committee on the Defense Industry, They Cannot Get By Without Planning"]

[Text] Viktor Constantinovich Glukhikh, born 1946, higher education, candidate of technical sciences, academician of the International Engineering Academy, chairman of the Russian Federation State Committee on Defense Branches of Industry. From 1966 through 1990 worked at the Leningradskiy Metallicheskiy Zavod Production Association and rose in the ranks from a fitter to a head engineer. In 1990 he was appointed first deputy minister of industry of the Russian Federation, in October 1992—chairman of the Russian Federation Committee on Defense Branches of Industry, and in September 1993—chairman of the Russian Federation State Committee on the Defense Branches of Industry.

[Osmanova] For six years now the military-industrial complex has been converting defense production. What changes have taken place in the structure of the defense complex during this period and how are the defense branches adapting to market conditions and reacting to the needs of the market?

[Glukhikh] The beginning of the conversion of military production is considered to be the year 1989. We have spent most of this time searching for efficient forms of organizing the defense complex that are adequate to market principles, which are something new to us.

The first step in this direction was, in my view, the creation at the end of 1992 on the basis of the former Union ministries of the State Committee of the Russian Federation for Defense Branches of Industry. The main task of the State Committee on Defense Branches of Industry is to develop an industrial policy and implement it in practice in defense branches. This policy must be one which, on the one hand, best satisfies the interests of Russia's national security and, on the other, provides for the most rapid and effective utilization of their potential for producing civilian products.

The second stage of the structural transformations was the creation of joint-stock companies and privatization of defense enterprises which, one must note, is proceeding at fairly rapid rates. The main thing here is the formation of a nucleus of defense enterprises with various forms of ownership, which are oriented toward filling the state defense order and implementing long-term weapons programs. Its basis is made up of state enterprises that are not subject to privatization before 1995. Their composition and number (454 enterprises)

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was determined by the corresponding directives of the president and Government of the Russian Federation.

Thus an absolutely new situation has arisen wherein the development and production of weapons is being handled by enterprises with various forms of ownership. The State Committee on Defense Branches of Industry is faced with a problem—to provide for effective utilization of production capacities that have shared ownership of the state and joint-stock companies. This means providing for full loading of enterprises, technical re-tooling, and determination of the prospects for their development.

Today it is perhaps possible to say that adaptation of defense branches to market conditions on the whole has been accomplished. This is confirmed by the fact that under conditions where the state defense order makes up less than 25 percent of the structure of the commodity volume of the "defense branch" and its financing is greatly delayed, the enterprises are surviving precisely because of civilian output.

But the Russian producer in Russia, just like the American producer in the United States, must have a certain amount of help and protection from his native state.

As early as 1993 our committee had developed a concept of the state industrial policy in the defense complex which envisioned certain protectionist measures for protecting producers of science-intensive civilian products and consumer goods in combination with the development of a competitive environment on the consumer market.

[Osmanova] How is the State Committee on Defense Branches of Industry resolving in practice the problems that arise before a state administrative organ under conditions of the transition to a market economy?

[Glukhikh] The defense industry is a specific sphere of the Russian economy. Its specific nature is determined by a number of factors.

In the first place it is the only one that solves problems of providing the Russian Army with modern weapons and military equipment. Consequently, the development of the scientific and technical potential must meet the requirements of the modern army and the tasks ensuing from the basic provisions of the military doctrine.

In the second place, the defense industry is forced to be in a condition of deep conversion. The most serious problem has to do with the effectiveness of the utilization here of the scientific-technical and industrial potential which is being released at defense enterprises with the cutback on military orders. The 1994 budget envisions a reduction of expenditures on the purchase of weapons and military equipment by almost 40 percent as compared to the 1993 level and on military scientific research and development—30 percent. We have included measures for preserving high technologies and

the personnel potential of defense scientific research institutes, design bureaus, and plants in the concept of the military policy.

Thus the administration of the defense sector of the economy under the conditions of the not fully formed market with its automatic regulators requires attention both with respect to military production and with respect to conversion. We must not forget that we are speaking about the national property of Russia and it must be used efficiently on the basis of federal priority programs.

The arsenal of means for management of defense branches of industry includes such market mechanisms as the financial-economic, credit, and price policy.

Finally, it must be understood that we cannot do without such instruments as planning and long-range prognostication. Without this it is impossible to develop long-range programs for the development of arms, and without them the industry itself remains "blind." I do not think Russia can allow this, the more so since practically throughout the world at the turn of the 21st century there will be a change in generations of military equipment. We are expecting the appearance of new weapons, including some that are based on different physical principles.

Proceeding from this, the State Committee on Defense Branches of Industry has drawn up a concept for long-term development of Russia's defense industry potential which is based on an assessment of what will be needed to carry out the tasks formulated in the Russia's military document and how to preserve and in the future provide for aggressive development of the scientific-technical and industrial potential of defense branches of industry. Major reliance has been placed on the creation and application of dual-purpose technologies. In Lyubertsy on the basis of the Soyuz Scientific Production Association, which was recently visited by the president of the Russian Federation, a Federal Center for Dual Technologies of Defense Enterprises is being created.

The State Committee on Defense Branches of Industry, based on the aforementioned concept, has begun to form a program for the development of Russia's defense-industrial potential. It is this program, in our view, that will help to solve a dual problem: providing the army with reliable and advanced weaponry and military equipment and effectively utilizing the scientific-technical potential of defense enterprises for civilian needs.

[Osmanova] Who has participated directly in the development of the draft of this program so far?

[Glukhikh] We are cooperating closely with administrations of the Ministry of Defense that are doing the ordering and we are relying on program developments for structural rearrangement that were done by the

Ministry of Economics. Naturally, the experience accumulated by the enterprises themselves during the course of their participation in international exhibits, salons, and conferences was also suitable. We tried to determine the initial requirements for the development of a number of base branches that have been enlisted in the development of the country's defense potential—the chemical and fuel and energy complexes and metallurgy. There are proposals for developing a system for training specialists for defense branches, since this has deteriorated in recent years.

[Osmanova] Are there any chances that the program you mentioned will be realized in the current economic situation?

[Glukhikh] We are disturbed not so much by the question of financing the future program as by its normative-legal and legislative support. The mechanism for implementing the program envisions the enlistment not only of funds from the state budget but also credit and borrowed funds from banks, commercial structures, and the enterprises' own funds.

Throughout the world weapons production is considered profitable and therefore funds invested in military production should produce income. If we enter the world economic system we must create for ourselves certain conditions to make military orders advantageous, and this should be determined legislatively. Therefore the implementation of the program will require the adoption of more than two dozen legislative acts regulating military production which protect state interests during manufacture, create a system of incentives for the state defense order, etc. Without the adoption of such a primary package of laws, the program for the development of defense-industrial potential will not take place.

[Osmanova] Can you already imagine a mechanism for implementation of the program for the development of the defense-industrial potential?

[Glukhikh] The program is a complex of goals and program assignments that are coordinated in terms of time periods, resources, and people to carry them out. They will be achieved through medium-term programs (five years), annual plans (in the form of defense orders), and also plans for scientific research, investigation, fundamental, and experimental-design work.

The draft "program for the development of the defense-industrial potential for the period up to the year 2000" must be considered by the Security Council of the Russian Federation in conjunction with the corresponding program for the development of weapons and, after its adoption, become a basis for the development of proposals in the main areas of the development of the defense-industrial potential up to the year 2010.

Status of Russia's Strategic Raw Material Base Evaluated

944F1363A Moscow ROSSIYSKAYA GAZETA
in Russian 24 Aug 94 pp 1-2

[Interview with Professor Vladimir Pitserskiy, vice president of the Academy of Natural Sciences of the Russian Federation, by Aleksandr Batygin under the rubric: "Only in ROSSIYSKAYA GAZETA"; place and date not given: "Dangerous for Security. Without Strategic Raw Material You Cannot Smelt Steel or Fly into Space"]

[Text] No branch of industry, agriculture, or the military complex can develop without the use of mineral resources. After the collapse of the USSR, Russia lost part of its raw material base—it was left without chromites, manganese, titanium, and certain rare metals. What could such losses result in, what is being done in the country to solve the problem of the transition from an economic category to a political one, and what is the situation with Russian strategic raw materials, about which it was previously prohibited to write in the open press? These were the subject of a discussion with the vice president of the Academy of Natural Sciences of the Russian Federation, Professor Vladimir Pitserskiy.

[Pitserskiy] The departure from the world arena of the superpower called the USSR changed the geopolitical situation—the stable balance was disturbed and a new balance of forces is taking form. A little longer and Russia, bound up in its internal problems, could become an alien in the "festival of life"....

[Batygin] Could you give some concrete examples confirming such misgivings?

[Pitserskiy] Sure. Russia no longer works with the super-source of raw material—the world ocean; work for drilling super-deep wells has come to a halt; almost no search and prospecting of deposits is being done. We have stopped working for the future! And yet it is our own mineral resources that provide for stability of the economy and safety of the country, and because of exports of raw material foreign currency flows into the state budget. Of special significance for the security of the state and its influence on world policy are such kinds of strategic raw material as hydrocarbon and radioactive raw materials, and ferrous, nonferrous, rare, and noble metals. Solely because of the application of rare and other metals there has been development of new technical equipment and modern branches of industry—electronics, laser, rocket, space, nuclear, and others.

[Batygin] With all the difficulties, tasks of self-supply of strategic raw materials are typical of more countries than just Russia.

[Pitserskiy] Of course. And not only in the modern stage of development of society. To live without strategic reserves is dangerous for the security of any country. The role of mineral raw material was elucidated just recently

during World War I. Then there was a critical problem with metals, gasoline, rubber, saltpeter, cement, and explosives. Things reached a point where Germany had to requisition copper dishes and bronze door handles from its own population...for Russia, which at that time was independently producing only 14 kinds of mineral-raw material products, the situation in general ended in a national catastrophe.

The lessons of the First World War forced all states to work on self-provision of strategic raw materials. Expansion of their own raw material bases and searching for new deposits of minerals became something all countries had in common.

Under the conditions of the economic blockade, in a short period of time before the beginning of the war the Soviet Union created a mineral-raw material base that fully covered its needs and provided for the creation of necessary strategic reserves. This ensured a victory for our country in the war and turned it into a superpower with a gigantic economic and scientific-technical potential that guaranteed national security.

[Batygin] Today, during peacetime, advanced and developing countries are working on the same problems—they are strengthening their economies. What place is assigned to strengthening the material-raw material base here?

[Piterskiy] Any country's defense capability is determined not only by its military might but also by its developed economic and strategic reserves. The mineral-raw material base must provide for a level of development of the economy that makes it possible to create modern military materiel and provide a convertible basis for production of both military and auxiliary products. Deliveries of sufficient quantities of practically any raw material, including all natural elements, is a strategic necessity....

[Batygin] Against the background of world economic integration, the rupture of ties among former CIS countries, on the one hand, and former Union republics of the USSR, on the other, seems absolutely ridiculous. This has led to a collapse of the raw material basis of their economy and security. Does this mean that Russia should search for an alliance with international economic communities?

[Piterskiy] Undoubtedly, but first it is necessary to have a clear idea of the condition of one's own mineral-raw material base and conduct a reassessment of deposits under market conditions. With the collapse of the Soviet Union resource ties and transportation systems were broken up and the security system, including strategic industrial and raw material complexes, was destroyed. As a result, Russia ended up economically and technically dependent on former Union republics and other countries and a number of mineral-raw material complexes ended up outside Russian territory. This includes chromium, magnesium, titanium, copper, lead, zinc,

mercury, antimony, uranium, tungsten, rare metals, raw material for producing phosphorus fertilizers, etc. Yes, even today Russia has a great potential, but if it is compared with the country's population, in terms of the per capita reserves of known minerals, extraction, and consumption, we lag behind many countries of the world and certain states of the CIS. For instance, in terms of reserves of hydrocarbons and their per capita extraction, Russia lags behind Persian Gulf countries by factors of tens and hundreds. In terms of the per capita consumption of oil and condensate Russia occupies 20th place in the world; copper, lead, zinc, and tin—11th place; molybdenum, niobium, nickel, aluminum, zirconium and tantalum—eighth place.

In recent years in Russia there has been a 30-40 percent reduction in the extraction of oil, coal, uranium, lead, zinc, copper, nickel, silver, platinoids, diamonds, phosphorites, and potassium salts. In terms of the volume of work using the aforementioned minerals the country has been thrown back 30-40 years! We are losing our economic independence and exposing ourselves to a real threat of economic and political pressure from our importers of mineral raw material.

[Batygin] Is it true that, as before the war, we cannot really count on our own forces? In your view, with whom should we mainly cooperate now?

[Piterskiy] In order to solve mineral and raw material problems, I think it would be expedient to be integrated primarily with the CIS countries and those of the former socialist camp. Because they are still closed into a unified system of production of technical means for geological prospecting and mining branches. Together these countries have all kinds of minerals and therefore this kind of community will be taken seriously on the world mineral and raw material market. Take, for example, the recent Russian "transaction of the century" for selling our military aircraft to Malaysia. A modern aircraft contains more than half of the elements on Mendeleev's table!

[Batygin] Where should the formation of an economic community begin?

[Piterskiy] First of all, with the determination of a clear and unequivocal state mineral-raw material policy. The realities are these: All CIS countries without exception are experiencing a critical shortage of mineral raw material, which was not the case previously "in the common home" with its unified industrial-raw material complex. Without any nostalgia let us recall that the metallurgical enterprises of Russia consumed 45-50 percent of all the manganese in the form of commercial ore and ferrous alloys produced in Ukraine and Georgia, about 40 percent of all the chromium ore that was extracted in Kazakhstan, and almost all the titanium and zirconium raw material was provided by Ukraine. The demand for lead and zinc of up to 70-80 percent of the overall amount produced in the USSR was covered mainly from Kazakhstan. The Magnitogorsk Metallurgical Combine was provided with iron concentrates in a volume of more

than 14 million tonnes a year from the Sokolovsko-Sarbaynskiy Ore-Enriching Combine in Kazakhstan. The production of antimony and products made from it was completely handled by Kyrgyzia, and more than 60 percent of the rich gold-antimony ores delivered from Yakutia was used. About one-fourth of the demand for molybdenum concentrates was satisfied through deliveries of these from the Kadzharanskiy Ore-Enriching Combine in Armenia. The majority of reserves of uranium raw material and its processing were concentrated mainly in Ukraine, Kazakhstan, and Central Asia. Rare metal concentrates produced on the Kola Peninsula were processed mainly in plants of Estonia and Kazakhstan and the final product was consumed by Russian enterprises...the list goes on.

At the same time Russia was and still is the main producer and supplier of oil and natural gas in the CIS; Russian coal is delivered to Central Asian and Transcaucasian countries, Belarus, and the Baltic countries; iron ore from the Kursk Magnetic Anomaly—to plants of Ukraine; apatite concentrates, nonferrous and rare metals, potassium salts, asbestos, sulfur, fluorites, and others—to many countries of the former socialist camp. In monetary terms Russia delivers to the CIS countries 11-12 times more mineral raw material than it receives from them.

[Batygin] Some of the raw material is "vanishing" abroad...

[Piterskiy] With Russia's current difficult economic situation some people see mineral raw material as the only source for quickly obtaining foreign currency. In our view, this is the wrong path. The majority of countries of Africa and Latin America that have chosen it to solve their economic problems have still not achieved prosperity. It seems more reasonable to combine rational utilization of nature within the country (along with a reduction of the energy- and material-intensiveness of the final product) with an imported supply of raw material.

[Batygin] In your view, which principle aspects should determine the content of the state mineral-raw material policy?

[Piterskiy] To begin with, it is necessary to reinforce in interstate contracts and agreements with nearby foreign countries the preservation over the long-range period of traditional ties for mutual deliveries of mineral raw material, geological prospecting and mining equipment, and training of personnel. In the second place, it is necessary to strictly coordinate the mineral-raw material policies of all CIS countries in the strategy for the development of geological prospecting work and mining production taking into account the existing location of enterprises that extract and process raw materials and mutual deliveries of raw materials and technical equipment. In the third place, legislative and other normative-legal acts should determine the state's regulating role and its interests in the development and utilization of the

mineral-raw material base. Additionally, when concluding agreements with foreign investors in the area of the utilization of minerals, priority should be given to the interests of preserving resources for our own long-range supply. This pertains above all to deposits of petroleum, uranium, and gold.

And, finally, we must remember that the mineral-raw material base is created by people—scientists and specialists of the state geological service. The appropriate incentives must be created for them. Without this nothing will happen.

Documents Defining Control Over Special Privatization Fund

944F1363B Moscow ROSSIYSKAYA GAZETA
in Russian 24 Aug 94 p 5

["Procedure for Control of Activity of Specialized Investment Funds for Privatization and Managers of These Funds and also Suspension and Revocation of Licenses Issued to Them," approved by Directive of the State Committee on Administration of State Property of Russia of 1 July 1994 No. 1832-R]

[Text] The present Procedure shall regulate control of the activity of specialized investment funds for privatization, citizens who accumulated privatization checks before 1 July 1994, and managers of these funds, and shall determine the grounds and procedure for suspension (restoration) and revocation of licenses issued to them.

I. Control of the Activity of Specialized Investment Funds for Privatization and Managers of These Funds

1. Control of the activity of specialized investment funds for privatization and managers of these funds (hereinafter—licensees) shall be exercised by the State Committee on Administration of State Property of Russia and the property management committee (hereinafter—licensing organ).

2. Control of the activity of the licensees shall be exercised through study (analysis) of documents submitted in compliance with the established legislative procedure by the licensee to the licensing organ and also information published (disseminated) in the mass media concerning licensing or through inspections of their activity.

3. When exercising control the licensing organ, within the limits of its authority, shall have the right to demand from the licensee any documents containing information about its financial-economic and other activity, including decisions (protocols) of organs for management of the fund (meeting of stockholders, board of directors, and other organs envisioned by the fund's Regulation), documents confirming the correctness of these decisions, and also fund documents that are kept and stored by a depositary in compliance with legislation.

The demands of the licensing organ within the limits of its authority shall be obligatory for compliance by the licensee.

4. Inspection of the activity of the licensee may be conducted on the initiative of the licensing organ, in response to applications (complaints) from stockholders in the fund, and on other grounds established by legislation.

5. The State Committee on Administration of State Property of Russia shall have the right to conduct inspections of the activity of any licensee. The property administration committee may independently inspect only a licensee to whom it has issued a license.

The inspection of the activity of a licensee with a license issued by the State Committee on Administration of State Property of Russia shall be conducted by property management committees exclusively on instructions from the State Committee on Administration of State Property of Russia.

The property administration committee conducting the inspection of the activity of a licensee on instructions from the State Committee on Administration of State Property of Russia, if the grounds stipulated in the present Procedure exist, shall have the right to independently suspend (restore) the license. Decisions to revoke a license of such a licensee shall be made by property management committees in coordination with the State Committee on Administration of State Property of Russia.

6. A decision (directive, order) to inspect a licensee shall be made by the licensing organ.

The inspection shall be conducted by a commission formed by the licensing organ. In addition to workers of the licensing organ, workers of central organs of the federal executive branch, organs of the executive branch of components of the Russian Federation, executive organs of local self-government, and workers of other enterprises, institutions, and organizations in coordination with the management of these organs, enterprises, institutions, and organizations may be enlisted to work as members of the commission.

7. Managers of the licensee being inspected shall be obliged to provide for members of the commission indicated in point 6 of the present Procedure unimpeded access to the premises occupied by the licensee, to turn over documents required by members of the commission in compliance with the procedure established by legislation, provide the necessary explanations regarding questions of the activity of these enterprises, and create normal conditions for the work of the commission.

8. The inspection of the activity of the licensee shall be conducted within a month's time.

In the event that managers and workers of the licensee refuse or avoid presenting the documents necessary for

the commission's work or prevent the documents with delay and (or) not in their full volume, and also if these managers and workers refuse or avoid giving explanations regarding questions of the activity of the licensee and in other cases a failure to fulfill the requirements of commission members, the licensing organ shall extend the period of the inspection up to three months.

9. The licensing organ shall report the results of the inspection to the licensee that was inspected in writing no later than three days after its completion.

II. Suspension of a License

10. The licensing organ shall have the right to suspend a license in the following cases:

- failure to present, late presentation, and (or) incomplete presentation to the licensing organ of the financial report specified by point 40 of the Statute on Specialized Investment Funds for Privatization and Citizens Accumulating Privatization Checks, approved by Edict of the President of the Russian Federation of 7 October 1992 No. 1186;
- the discovery of inaccurate information in the documents submitted by the licensee in compliance with legislation to the licensing organ;
- recognition by the licensee of insolvency in compliance with legislation of the Russian Federation;
- refusal or avoidance on the part of the licensee of presenting documents demanded by the licensing organ within the limits of its authority;
- refusal or failure to fulfill the requirements for elimination by the established deadline of violations and shortcomings discovered by the licensing organ;
- making a change (changes) in documents on the basis of which the license was issued without subsequent written notification of the licensing organ of this within 10 days;
- making changes not in compliance with the requirements of legislation in documents on the basis of which the license was issued;
- the loss by the manager of his qualification certificate (papers) for the right to conduct operations with securities or expiration of this certificate (papers);
- completion of transactions not in compliance with the requirements of legislation of the Russian Federation.

11. A decision (directive, order) to suspend a license may be adopted by the licensing organ if it discovers in the activity of the licensee even one of the violations listed in point 10 of the present Procedure.

This decision may be made regardless of the means by which the violation was discovered (both during the immediate inspection of the licensee and upon analysis of the documents submitted by it to the licensing organ

and (or) information about its activity disseminated by the licensee in the mass media.

12. The licensing organ shall notify the licensee of the suspension of the license in writing no later than three days after the adoption of the decision.

The licensee may be notified by letter, telegram, teletype, telephonogram, telex, fax, etc. or through having the licensing organ turn over a properly certified copy of the decision to suspend the license which is signed for by a representative of the licensee.

13. The decision to suspend the license shall take effect on the day of the receipt (turning over) of the notification to the licensee indicated in point 12 of the present Procedure.

14. From the moment the decision to suspend the license takes effect until it is restored the licensee shall be prohibited from conducting any activity related to management and disposal of his property, including securities and monetary funds.

15. In exceptional cases in order to ensure the property rights and interests of the stockholders in the fund, with written permission from the licensing organ the licensee may conduct individual one-time operations involving securities and monetary funds.

In order to obtain permission the licensee shall submit to the licensing organ a justified application which indicates the purpose, justification, object, sum, and time periods of the proposed transaction and also the name, address, and payment information of its participants.

The decision to refuse or grant permission shall be made by the licensing organ within a week of the day of receipt of the application.

16. Violations and shortcomings shall be subject to elimination within a month of the day:

of the suspension of the license if the violations and shortcomings have been discovered by the licensing organ on the basis of an analysis of documents submitted by the licensee and (or) published (disseminated) in the mass media concerning its activity;

the receipt by the licensee of a document on the results of an inspection of its activity if the violations and shortcomings were discovered by the licensing organ during a direct inspection of the licensee.

III. Restoration of the License

17. A suspended license shall be restored by the licensing organ only after the licensee has eliminated the violations and shortcomings discovered in his activity.

18. The licensee shall notify the licensing organ in writing of the elimination of violations and shortcomings. This notification shall be signed by the manager of

the licensee. Attached to the notification shall be properly certified copies of documents confirming the elimination of the violations and shortcomings.

If the violations and shortcomings were eliminated by the licensee during the process of the inspection of its activity, the aforementioned notification shall not be sent to the licensing organ. In this case information about violations and shortcomings that have been discovered and eliminated shall be reflected in the document on the results of the inspection.

If necessary the licensing organ shall have the right before the restoration of the license to verify the reliability of the submitted information about elimination of violations and shortcomings.

19. The decision to restore the license shall be made by the licensing organ and shall take effect on the day of its adoption.

The licensing organ shall notify the licensee of the adopted decision in writing along with the publication of a directive (order) for restoration of the license.

IV. Revocation of a License

20. Revocation of a license is a measure aimed at halting the investment activity of the licensee.

21. The license shall be subject to revocation in the following cases:

- the licensee's failure to eliminate within a month's time the violations and shortcomings in its activity discovered by the licensing organ;

- repeated (two or more times) or prolonged (more than five days) placement by the licensee of obstacles to the conducting by the licensing organ of an inspection of its activity (limitation of access of members of the commission of the licensing organ to premises occupied by the licensee, refusal or avoidance on the part of managers and workers of the licensee to present documents that do not contain trade secrets and presentation of explanations regarding questions of the licensee's activity);

- elimination and reorganization of the fund in compliance with the procedure established by legislation;

- repeated violation by the licensee of the requirements of Edict of the President of the Russian Federation of 10 June 1994 No. 1183 "On Protection of Consumers from Unconscientious Advertising" (in this case the license is revoked at the instigation of the GKAP [State Committee for Antimonopoly Policy] of Russia).

Upon discovery in the activity of the manager of even one of the actions whose commission is prohibited by the Statute on Specialized Investment Funds for Privatization and Citizens Accumulating Privatization Checks

and other legislative acts, the license issued to it may be revoked without preliminary suspension.

22. The decision to revoke a license shall be made by the licensing organ and shall take effect on the day it is adopted.

The decision to revoke the license of a licensee whose activity was inspected by a property management committee on instructions from the State Committee on Administration of State Property of Russia shall be made in compliance with point 5 of the present Procedure.

23. The licensing organ shall notify the licensee of the adoption of the decision in writing along with the publication of the directive (order) on revocation of the license.

This decision shall be subject to mandatory publication (dissemination) in the mass media.

24. A revoked license shall not be restored. From the day of the revocation of the license the licensee shall not have the right to engage in investment activity as a specialized investment fund for privatization or a manager.

The qualifications certificate of the securities specialist issued to a worker of the licensee or manager (individual) whose license has been revoked shall be invalid effective the day of revocation of the license. This rule shall apply only to certificates issued by the State Committee on Administration of State Property of Russia.

The aforementioned individuals in order to acquire the right to conduct operations with securities and obtain a qualifications certificate must take the examination again in compliance with the procedure established by legislation.

V. Concluding Provisions

25. The decisions of the licensing organ to suspend and revoke licenses may be appealed by the licensee to a court or an arbitration court.

26. From the results of the inspection of the activity of the license the licensing organ may recommend to the board of directors of the fund a list of issues to be included on the agenda of the next stockholders meeting.

Directive No. 1832-R of the State Committee of the Russian Federation for Administration of State Property of 1 July 1994: On Approval of the Procedure for Control of the Activity of Specialized Investment Funds for Privatization and Managers of These Funds and Also Suspension and Revocation of Licenses Issued to Them

For purposes of improving control of the activity of specialized investment funds for privatization, citizens accumulating privatization checks before 1 July 1994, and also procedures for suspension (restoration) and

revocation of licenses issued to these funds and managers and in compliance with points 9 and 15 of Edict of the President of the Russian Federation of 7 October 1992 No. 1186 "On Measures for Organization of a Securities Market During the Process of Privatization of State and Municipal Enterprises":

the appended Procedure for control of the activity of specialized investment funds for privatization and managers of these funds and also the suspension and revocation of licenses issued to them shall be approved.

[Signed] First Deputy Chairman A.N. Ivanenko

Interpol Bureau Chief on Crime Concerns

944K2274A Moscow LITERATURNAYA GAZETA
in Russian No 35, 31 Aug 94 p

[Interview with Lt. Col. Yuriy Melnikov, chief of Interpol's Russian national bureau, by LITERATURNAYA GAZETA special correspondent Nikita Sorokin; place and date not given: "Does Interpol Know Almost Everything About the Russian Mafia? Director of Russian Interpol Believes That His Bureau IS One of the Strongest in the World"]

[Text] The national central bureau of the Russian Federation Interpol is not located in the capital city's center, although this would be appropriate for the status of this solid international organization: Its home is the area of the Novyye Chermushki subway station. The din of new construction; cement-and-mud puddles; wooden planks between them—and a tall high-rise glass and concrete building, where, actually, Interpol is located.

Lieutenant Colonel of Internal Service Yuriy Melnikov, chief of the national Russian bureau, has been in his current job for about a year, but then, both the USSR and subsequently Russia are newcomers to Interpol.

"In 1989 the USSR was officially presented at Interpol's General assembly; right there it was accepted to the membership of this organization, and the new bureau began operations on 1 January 1990. International crime always existed. Why did our country join Interpol so late?" I ask Yuriy Aleksandrovich.

[Melnikov] It is not enough to simply declare that we have now become members of this international interagency organization. Had we joined Interpol earlier, we would resemble a hunter with a rifle but without ammunition. Therefore, there was an opinion that first we needed to build an international legal base, that is, have treaty obligations with various countries on mutual legal assistance, on the matter of extradition of criminals, and so on. Then there is a number of documents dealing with the transfer of convicted criminals to serve out their sentence, and recognizing court decisions. For instance, a Russian citizen is convicted in Poland and sentenced to three years in jail; we recognize this decision, take the criminal, and he serves time here. The procuracies, courts, and police of two countries are involved in this;

this is a lengthy process, a lot of paperwork. Only shortly before the putsch of 1991 did we build sufficiently favorable groundwork on the territory of the country to begin a full-fledged cooperation with Interpol.

[Sorokin] The disintegration of the USSR, democratization of Russia, and its rapprochement with the world community probably has a positive effect on your relations with Western colleagues. Are there already some bilateral agreements between Russia and European countries?

[Melnikov] We work most closely with former allies in East Europe, as well as Austria, Germany, England, Denmark, and Sweden. Overall, at this point we maintain relations with 115 countries.

[Sorokin] You mentioned something about mutual legal assistance in civil affairs.

[Melnikov] Oh, gosh! Wild things happen. Not too long ago, a Swede killed his wife, a Russian. They have a young son, who by Swedish laws is in the custody of his father, but the father is in jail, and the boy's Russian grandmother demands the return of the grandchild. Or a husband and wife divorced here; the husband takes the child and disappears, and then the child turns up somewhere on Cyprus. People steal children from each other very frequently.

[Sorokin] Where does your budget come from?

[Melnikov] Interpol is an association of national police forces, so we get all the money from our own MVD [Ministry of Internal Affairs]. By the way, in terms of technical equipment, our bureau is one of the strongest in the world.

[Sorokin] How do you interact with the FCS [Federal Counterintelligence Service] and FIS [Foreign Intelligence Service], that is, with counterintelligence and intelligence?

[Melnikov] These are special services; we work with law enforcement organs.

[Sorokin] But intelligence and counterintelligence have at their disposal massive amounts of information.

[Melnikov] We have an international organization charter in keeping with which, on behalf of the country, took an obligation to work only with law enforcement organs.

[Sorokin] Do you cooperate with the tax police?

[Melnikov] Of course. One the other side of this wall is the desk of a Department of Tax Police liaison officer; a second one will be detached to us soon.

[Sorokin] Our gangsters very frequently travel abroad, and the purpose of their voyages surely is of interest to the militia. Do you ask your Western colleagues to put surveillance on them?

[Melnikov] We may have suspicions, preliminary assessment, agent information. But you have to have very serious grounds to suspect a person and ask someone over there, abroad, to monitor him. Besides, who is going to pay for all this? For instance, the FBI, before they take on such a task, must have proof that the object of surveillance is indeed a criminal. Without it, nobody will move a finger. Practice shows that, in order for someone abroad to begin doing work for you and make a serious effort, you have to hold numerous negotiations, meetings, and send over a pile of documents.

[Sorokin] That is, if the militia asks you to keep an eye on someone, for instance, in Austria, you will find it difficult to oblige?

[Melnikov] We ourselves will not keep an eye on anyone. It is our duty to pass the request over to the Austrians, and we will do so, but we cannot guarantee what the reaction will be from that side.

[Sorokin] Generally speaking, does the militia pass such requests through you often?

[Melnikov] I will tell you what happens frequently. A person takes out a large loan in a bank, after which he converts the money into foreign currency and, in a couple of months, having purchased a passport, leaves for South America, only to surface later, for instance, in Austria. We start looking where he actually is. There are about 5,000 such "foreigners" currently in Interpol's sights.

[Sorokin] Are inquiries and information going through the Russian bureau related for the most part to our criminals?

[Melnikov] Approximately equally—ours and foreigners. The disintegration of the socialist camp; the relative openness of our borders considerably expanded geographically the range of activities for international crime. It is remarkable that in the investigation of crimes, in particular murders, on the territory of Russia, some foreign "loose ends" pop up all the time: weapons, equipment, cars. We know, for instance, what country the rifle from which Otari Kvantrishvili was killed, came from.

[Sorokin] And which country was that?

[Melnikov] I cannot tell—this will violate the confidentiality of the investigation. We work with an eye on all recent murders one way or the other. Russian Interpol now has worked out the practical methods of searching for our criminals abroad and is beginning the final stage of this work. The final stage is extradition, that is, returning the criminals to the country of origin. We recently found a Norwegian criminal with the help of the Interpol system; he has already been shipped home and is serving time there. Six of our criminals were found by police forces of different countries; now the question of their extradition is being resolved, that is, very soon we will get permission from national law enforcement

bodies to send there groups of people who will bring the scoundrels home in handcuffs. Or, for instance, an investigation is currently under way—a terrible, really mystical case. A drifting schooner was found in the Northern Sea, without the crew of six Russian sailors and a German captain. Then the captain's body was found and a lifeboat with our sailor, alive. We do not know yet what precisely had transpired there; our sailor is under investigation in Germany.

[Sorokin] Huge amounts of foreign currency flow from the country abroad. How effective is the cooperation with foreign branches of Interpol with respect to the return of this money?

[Melnikov] How do you get the money back? We have been a member of Interpol for several years and have not brought back a single ruble. This is something that presents a tremendous challenge both for us and the federal service for foreign currency and export control. Most often money is transferred from our bank to a foreign one under a fictitious contract. In a simplified form: Let us say I transfer a certain amount to an account in Switzerland, but a consignment of, for instance, Snickers does not come to me because the supplier is fictitious and the contract is pure fiction. We cannot get into that bank, and, in order to check out the account, we need to know whether local police can do it in keeping with their own law. Because transfer of money that belongs to a company from one bank to another is not even money laundering—it is a simple banking transaction. By Russian laws, however, this money should come back. If not, in our country, it violates the law. In international practice, it is not a violation; and our laws to a certain extent may be seen as a complete deviation from international norms and standards. Different legal interpretation of the same actions is the point of contention. Laws of many European countries have been changed recently, however, and thanks to this we can already get quite useful information. But, first and foremost, control over the outflow of foreign currency must be strengthened here, in Russia. The Central Bank does not have the right to demand of commercial banks paperwork on suspicious financial operations—there is no relevant legislation as yet, and no system of control. While we, through our channels, track billions—but only after they have already “flown” the country.

[Sorokin] Yuriy Aleksandrovich, many people, including militia officials, consider the Russian bureau of Interpol a superfluous bureaucratic structure; they maintain that it is quite enough to have such services as the tax police, the federal service for foreign currency and export control, and the administration for combating illegal drug trafficking. What can you say in this respect?

[Melnikov] It is simply that many people have not yet realized why we exist. It comes to a point of anecdotal—we may get a directive from above: “Ensure apprehension, arrest, and transfer of Ivan Ivanovich Petrov from Spain.” We do not carry out this work—we help to carry

it out by transferring the necessary information. Information is the alpha and omega of any work. Give me information, and I will overturn the world—it is the same fulcrum. We are being reproached: You have to speed up international exchange of specialists, and instead you are sending papers back and forth. You can move over to international investigative tasks or exchange of experts only after you collect a certain volume of information.

Take the Neftalmazinvest case—it was we who tied several “loose ends” for the militia—the country where a considerable part of money settled; we even provided the opportunity to check the accounts... Thanks to cooperation with the German and Polish bureaus, we have disrupted an attempt to manufacture counterfeit rubles in the amount of about R300 billion. One of the latest cases—on a murder scene, witnesses noticed a foreign-made car but could not tell the color and model in the twilight, only remembered accidentally several digits in the license plate. Even with such a small lead, we found out who purchased the car and when and where. By the way, we worked together with the Americans when they were trying to identify a particular country in the Near East from where counterfeit dollars started coming. The Interpol system is in a way a universal police brain center, and, with the current rise in international crime, one cannot do without us.

Economy Minister Career, Views Evaluated

944K2273A Moscow LITERATURNAYA GAZETA
in Russian No 35, 31 Aug 94 p 10

[Article by German Konstantinov: “Who Are You, Dr. Shokhin? Portrait of the Minister of Economics Against the Backdrop of the Deteriorating Economy”]

[Text] Almost two years ago, contemplating how to achieve the stability of CIS currencies, Mr. Shokhin coined an aphorism: “A grass-snake in a tunnel.” The meaning is simple to the extreme: A grass-snake can coil up and crawl in a spiral movement but cannot deviate too far. As often happens, the graphic comparison eventually turned against the author—in hallway conversations this formula has since then become firmly attached to Aleksandr Nikolayevich himself. And not without reason.

Former adviser on economic issues to E. Shevardnadze, Mr. Shokhin, by his colleagues' admission, seemed lost after his boss left the all-Union MFA [Ministry of Foreign Affairs]. However, apparat and corporate connections helped him land in May 1991 the modest job of director of the Institute of Employment Problems of the USSR Academy of Sciences. He was propelled into the higher echelons of power by the failure of the August putsch, when the democrats, giddy with victory, began to divide portfolios in the Russian government. I remember how one of my journalist colleagues, asked after the defeat of the GKChP [State Committee on the State of Emergency] whether he had yet parted with the

CPSU, answered sarcastically: "I joined the party for mercenary considerations, and it would be simply indecent to leave it now on principle." Aleksandr Nikolayevich apparently was guided by different criteria—he renounced his party membership on 19 August 1991. And got the minister of labor portfolio.

In this job his claim to fame was the development of the "physiological" subsistence minimum, which was to become the official poverty line. Or, to be completely honest, elementary survival. This minimum, which included a meager basket of foodstuffs and did not even envisage expenditures on clothing, footwear, and underwear, nevertheless left below the "line" approximately 50 million Russian citizens.

During the second putsch, however, on the night of 3 to 4 October, Mr. Shokhin, by his own admission, came to Gaydar's office on Staraya Square to reproach him for... underestimating the social consequences of reforms. Piquant, is it not? And most importantly, what great timing! Apparently he did not have the chance to say this over the past two years.

Radical reformers, who opened the upward path for Mr. Shokhin, now call him a renegade and say that he does not care what job he holds as long as he stays in the corridors of power. With respect to the first part they clearly are mistaken: Mr. Shokhin is not a renegade; he never betrayed anyone (including himself), and if he did indeed move in a spiral, after all, not having a position also is a position.

Having become deputy prime minister, Mr. Shokhin declared: "We took a concrete course toward **reduction of state interference** in the economy." Thank God, it was Pushkin way back when who said: We, Russians, do not remember family ties. Had it been otherwise, the people would be mighty surprised on learning a couple of months later the deputy prime minister's new credo: active selective policy accompanied by **sharply increasing the role of the state** in managing the economy. What the minister meant by this thesis became clear only recently, when the draft government decree "On Licensing Certain Types of Activities," prepared by the Ministry of Economics, appeared on the scene. If the prime minister signs it, 40 federal agencies and local administration will be regulating to their heart's content—the government farms out to them the right to license about 80 types of activities. The press appraised this document briefly and unequivocally: The government is readying another feeding trough for corrupt bureaucrats.

One can hardly suspect Mr. Shokhin, who had come to the top echelons of power using methods of pure apparat maneuvering, that this antimarket draft is his gratitude to the bureaucratic clan for support and understanding. It is simply that for him, an apparatchik since 1987, the interests of this clan are close to heart. A smart, charming, intelligent man, he knows the local rules of the game well and rarely deviates from them. Suffice it to

recall the story of introducing protectionist import duties. It was clear even to noneconomists that they would bankrupt importers, that food imports (forget prestigious foreign-made cars for the "new Russians") will sharply decline and their prices will rise. It is obvious to anyone that no protectionism can help our agrarians feed the country—we could not do it during the stagnation years, so what is there to say about the epoch of cataclysms. Yuriy Luzhkov, who was only the capital city mayor, spoke out sharply against the exorbitant tariffs—he had Moscow to feed, after all. Mr. Shokhin, who is in charge of the entire national economy, vaguely explained in the press that these tariffs are the result of long and difficult discussions, a compromise between domestic goods producers and consumers. Mr. Shokhin did not take the risk of speaking up openly against the pressure of the powerful agrarian lobby led by another deputy prime minister—A. Zaveryukha. By the way, the words **compromise, the golden mean**, appear in almost every one of his interviews, and can be heard at every press conference. Without question, politics is the art of compromise, but when it gets to the point of being nothing but compromise, there is no more place left for policy, including economic.

The list of jobs Mr. Shokhin held and is holding is very impressive. Acting director from the Russian Federation in the IMF and IBRD [International Bank for Reconstruction and Development]. Chairman of RAMSiR [expansion unidentified] (recently disbanded in keeping with Yeltsin's January edict—apparently RAMSiR was not terribly successful in attracting foreign investors, otherwise why close it). Head of all sorts of government commissions: on humanitarian and technical aid, international investment cooperation, preparation of proposals on improving the system of state administration, and even on issues of religious confessions. Chairman of the board of the State Investment Corporation; International Agency for Insuring Investment in the Russian Federation From Noncommercial Risks; Inter-Agency Commission on Military-Technical Cooperation With Foreign Countries. Chairman of the government commission on cooperation with international financial organizations, and at the same time head of the Russian part of intergovernment commissions on economic and scientific-technical cooperation with China, England, the DPRK, the Republic of Korea, Mongolia, and the United States.

Ugh! Looks like this is it. It would not be worth it to quote this entire list, since it is clear to anyone that even Gaius Julius Caesar could not work fruitfully in so many jobs. This quantity of sinecures is good only for one purpose: to be constantly mentioned in the "top news" by the domestic and foreign press: "Today such and such was present at the prime minister's meeting with the delegation X, and participated in the conference on the subject of..." But here is what is interesting—he took most of these jobs in 1993, when the confrontation between the two branches of power was becoming increasingly more pronounced. One may guess that this

job-collecting was caused not by a desire to shoulder the excessive burden of concerns but rather the desire to acquire the firmest possible footing in apparat structures—no matter what turn events take, something will be left. Especially keeping in mind that at the time Shumeyko and Poltoranin were quite openly pushing Aleksandr Nikolayevich out of the government. During those months Mr. Shokhin travels the country, quite frequently with Khasbulatov, explaining this by a quest to find a common language. Where the quest ended, we all remember very well. We have just marked the anniversary of it...

Shokhin bets on Chernomyrdin, frequently berates "monetarists," for the third time changes his party affiliation (communist, social-democrat, PRES [Party of Russian Unity and Accord] member), and runs for a seat in the State Duma. Despite PRES' crushing defeat in the elections, he gets elected to the parliament and, not being certain that he will stay in the Cabinet of Ministers, begins to mention that he might try to compete for some post in the lower chamber: "I would love work here, knowing the difficulties of the situation in the Duma."

But Chernomyrdin, far from an admirer of "monetarists," did appreciate Mr. Shokhin's common sense—in January the latter became minister of economics, the fifth in two years, and soon thereafter—deputy prime minister in charge of implementation of economic reform. And immediately in an interviews made an elegant bow in the direction of the prime minister:

"Do you know who is the biggest reformer in the government? Not a specially trained deputy prime minister or a minister—it is the prime minister."

The flattering statement coming from a "specially trained" deputy prime minister, doctor of economic sciences, and professor grated on many people. But after all, choosing self-abasement over pride is his personal business. The "program," however, which Mr. Shokhin put forward in his role of deputy prime minister in charge of the economy was simply bewildering. The Ministry of the Economy proposed some sort of symbiosis between a strict financial and "inertial-adoptive"—that is, pro-inflation—policy. Of course, we live in the country of victorious surrealism, but not to the point of trying to crossbreed a giraffe with an elephant.

Having vaguely outlined the route between the Scylla of monetarism and Charybdis of targeted selective policy, the new deputy prime minister in his coronation speech at the government meeting declared several trivial truisms such as: We need to support high-efficiency production; implement investment projects that will form the future shape of the Russian economy; improve the tax system; increase financial discipline; develop an adequate form of managing state enterprises; and so on. In short, just like in the glorious stagnation era: The economy must be economical, but how to make it such is unclear. In his political-economic declaration Mr.

Shokhin limited himself to slogans, not finding it expedient to (or being unable to?) disclose the mechanisms for achieving the alluring goals. Actually, wicked tongues had it that he had entrusted the preparation of this paper to lowly subordinates. No wonder: When one has so many jobs, meetings, and conferences, where can one find time to work on a strategic document?!

The result of its implementation is well known. There has been so much written on the state of the domestic economy that it does not make sense to add water to the sea. However, it is worthwhile recalling some figures. Over seven months the volume of industrial production declined by one-quarter as compared to the same period of last year; lengthy stoppages at enterprises increased 1.5-fold, and their solvency decreased dramatically—the share of unprofitable enterprises increased almost two-fold and amounted to one-third of the total number of enterprises and organizations. Monetary emission is growing at an approximate monthly rate of 10 percent; of R70 trillion of budget deficit, sources still have not been found to cover R25 trillion. And this is not all: Because of the production decline the tax base is shrinking like shagreen leather, and the State Tax Service forecasts that in the current year the consolidated budget's revenue will be R34 trillion less than expected (including R23 trillion at the federal level). So much for "regulation..."

When it comes to forecasts, the Ministry of Economics is not doing all that well either. Statistics show that the forecasted value of macroeconomic indicators prepared by Mr. Shokhin's agency, on the basis of which the revenue part of the budget was formed, are far removed from reality. The GDP declined over the half-year by 17 percent, and production by 25 percent—a decline almost twice as big as the ministry's experts had forecast. Grandma Vanga's predictions are more precise than this.

The government is in no hurry, however, to adjust the revenue part of the budget. Optimistic but unrealistic forecasts of the chief economic agency and the sluggish reaction of the authorities to the real situation in the national economy in the final analysis may lead to massive emission and, correspondingly, another surge in inflation.

The role of a watchdog of economic agencies does not seem to be the deputy prime minister's forte either. Take for instance the recent statement by MFER [Ministry of Foreign Economic Relations] head Oleg Davydov—that the largest Western creditors could write off Russia's debts. The minister did know that the boss supports the diametrically opposite viewpoint—if we ask for debt "forgiveness" we get no more credits. But at least Mr. Shokhin commented on this demarche on the part of his subordinate. He did leave unanswered Davydov's other, no less principal, statement: that a sharp, 10-15 percent, increase in exports of crude oil is a trifle not worth discussing. His plans to increase sales of raw materials Oleg Davydov explained by the insufficient number of reliable consumers in Russia and the need for foreign

currency. Foreign currency is needed, of course; as to consumers, however... Translating the minister's words from diplomatic-bureaucratic to plain language, they mean the following: Messrs. Industrialists, you lost a lot of weight because of hunger, and also ran out of money. Do not be upset—we will cut your allowance some more. So much for selective support of producers.

To blame Mr. Shokhin alone for the disintegration of the national economy would be same as sewing a coat on a button. And we would not be doing so had he not himself stated that the Ministry of Economics must be responsible for the entire situation in the economy, including foreign economic activities, and had he not berated his predecessor in this job—Gaydar, he said, left because he was afraid of responsibility. One may disagree with Gaydar's ideas, but it is hard to deny that he launched the three most important mechanisms in the economy: he created the conditions for the import and export of capital, decontrolled prices, and began privatization. The result is known—shortages disappeared, the market became saturated to a certain extent, the ruble more or less began to work, and property is being redistributed. Gaydar had a position—disputable perhaps, but he defended it, only once in a while giving in to the pressure of lobbyists in order to preserve the strategic thrust. What specifically Mr. Shokhin has done and what is his position is still unclear even now, half a year after he was appointed minister of the economy. One begins to recall unwittingly the reproaches of brother-reformers that Shokhin does not care what job he has as long as it is high enough.

From a human viewpoint one can understand him—he is not backed by such powerful lobbies as O. Soskovets or A. Zaveryukha. And closer to home is the example of P. Aven, who after his resignation became the figurehead president of a private bank, whose policy is set by completely different people. Nobody wants to end up on the sidelines.

Maneuvering and constant compromises for the sake of a career have always been and will remain the method of coming into power and staying there. This is not a very dangerous phenomenon when we speak of stable countries. But at a critical period such spinelessness can easily break the spine of our drained, dystrophic economy.

Implementation of Bankruptcy Procedures Previewed

944F1372A IZVESTIYA in Russian 25 Aug 94 pp 1-2

[Article by Igor Karpenko: "Bankruptcies Will Begin in September"]

[Text] In September, the territorial agencies of the Federal Directorate for Cases of Insolvency [Bankruptcy] will draw up lists of insolvent enterprises. Then, depending on the prospects for their survival under market conditions, a specific decision will be made on each of them individually—from the sale of entire plants as legal entities to

investors to their complete liquidation. Legislative acts on bankruptcy have been supplemented by recent packages of economic edicts from the president and by government decrees, and they have established the legal basis for it. It is obvious that next month the bankruptcy process will develop on an appreciable scale.

At the present time, territorial agencies on bankruptcy have been established and are in operation in 82 regions of Russia, and more than 700 of their specialists are preparing documents on the economic state of enterprises. By the beginning of August, the first hundred enterprises had been included in the lists of the insolvent, and their number is increasing rapidly—as many as several dozen every day. According to the preliminary forecasts of the territorial agencies, the number of insolvent enterprises ranges from 40 to 70 percent! In other words, today about half of the country's enterprises are potentially bankrupt.

Of course, insolvency, which is defined according to definite, officially accepted criteria (the coefficients of current liquidity and own assets), is only an alarming signal of the financial inefficacy of the enterprise. For the territorial agencies, however, this signal means that their authority and obligations with respect to an indebted plant go into effect and that they must make a decision on its fate. But here it is necessary to consider and analyze an enormous number of factors and to coordinate the conclusions with the local administration and with branch departments.

Is a handful of specialists able to perform such work in the regions? I spoke about this with Vitaliy Churkin, manager of the Novosibirsk territorial agency on bankruptcy. This relatively large subdivision has 10 specialists for 1,386 enterprises! In his words, all of the work is aimed at helping the economic services of the region and its administration and at promoting "related" structures—committees and property funds—and therefore it is proceeding rather successfully. Of course, there is probably good reason to expect success in one of the country's largest academic centers that is rich in scientists and economists and that has good support from local authorities. Will the scenario be so favorable in other regions, where the administration sees bankruptcy only as a source of social tension and unemployment? In an interview with IZVESTIYA, Sergey Belyayev, manager of the Federal Directorate, said: "Of course, of enormous significance is the mood of the public and a civilized attitude toward bankruptcy as a normal democratic procedure that is acutely necessary for a market economy, especially that of Russia. Many see bankruptcy as plant walls and machine tools being 'auctioned off,' workers thrown out on the street, and other 'horrors.' It is just the opposite: When a plant is bought by a new owner, who is capable of paying past debts, this means that he hopes to maintain production and make it profitable. Yes, the new owner will be forced to tell the people the truth: They must do this and that, replace the

management, reduce the number of workers by one-third, work in a different way, etc. But one must understand that otherwise production will inevitably stop completely and the entire work force will be laid off. After all, hundreds of plants have already been shut down in Russia, and it is much more dangerous if such a process takes place haphazardly and if unemployment takes on a mass uncontrolled character. This is the end of all reforms and the failure of the policy of the government."

Literally within a month, for the first time in the entire history of the Russian market, we will be able with the help of the criteria of insolvency to give the government an objective picture of the financial situation of the territories, branches, and every enterprise and to provide full information on how much and precisely who must give to precisely whom.... At the same time, the creditor must be certain that the debt will be paid back to him, and the debtor must know that he must return the money without fail, even if he has to sell some of his shares, property, or the entire enterprise to do so. But market relations are impossible without this.

In the opinion of Sergey Belyayev, certainty that this time the process of bankruptcy will finally get going in September is provided by the rather solid legal basis and the structure—a network of territorial agencies—really in existence now that is capable of guaranteeing the action of a bankruptcy mechanism. Precise criteria of insolvency simplify the process to the automatic calculation of the data on the balance sheet and practically eliminate from it the "will" of the bureaucrat and his willingness or unwillingness to "enter" someone as bankrupt as he sees fit. In the making of a decision on whether a plant or debtor is "to be or not to be," there must be a careful auditing. Here most of the burden of the work will fall on private auditing firms and the most authoritative companies, with which contracts are already being signed.

By the way, the first analyses of the financial state of plants have shown that some of their managers are trying to "palm off" false information, are hiding their bank debts, and sometimes, on the other hand, their own assets and profit, and are themselves declaring their own supposed bankruptcy. Some wise directors have "found out" that under the legislation, bankruptcy also means a "moratorium" on debt during 18 months and the hope for money for restoration. It is senseless to hope for state subsidies. Only a private investor can provide money. If no investor is found, then a decision will have to be made on the sale of property or an entire enterprise for the payment of debts. A law is also being prepared on false bankruptcy and sanctions against such actions.

"Many debtors," says S. Belyayev, "are suffering not because there is no investment. Most often they suffer because of ineffective and poor management and the impossibility of working normally under the current structure of production and form of ownership."

In the overwhelming majority of cases when an entire plant is sold, as S. Belyayev thinks, it is not at all a matter of laying off the work force. Most of the jobs lost are those of its managers who had turned the enterprise into an intentional debtor. The Federal Directorate must concern itself with this even before the arrival of the new owner-investor. Naturally, this requires qualified specialists who are capable of working competently under market conditions. This problem has now been practically solved: The training of arbitration, competitive, external, and crisis managers was willingly handled by the Academy of the National Economy, the highest school of privatization, Moscow State University, the institutes of higher education of St. Petersburg, Yaroslavl, etc. The first of them, by the way, have already appeared at insolvent enterprises.

In my view, one of the most acute problems will be that of investments and buyers for insolvent enterprises in future commercial competition. In accordance with sociological studies and expert analyses, it is now known that Russian entrepreneurs are able to and intend to put the rather paltry sum of about R3 trillion into long-term investments. And "monetary" privatization will begin at the same time. Will not an investor prefer a large packet of shares of a "prestigious" private enterprise to insolvent plants that are lying "on their side"?

"Yes, we will put insolvent and indebted enterprises up for commercial competition. But it will only be those whose insolvency is restorable and where we know precisely what procedures will be required for this. Only in such competition will the investor be able to buy an entire plant and become its full owner. The only requirement of him is that he pay in 20 percent of the value of the plant and pay off the rest of the debt in agreement with creditors. The contract-transaction does not even include the production of any particular output. I think that one can definitely find people willing to buy enterprises under such conditions...."

Yegor Gaydar once responded this way to those objecting to the absurdity of bankruptcy that can cause an increase in unemployment in the regions:

"If there is no bankruptcy of enterprises, then Russia will go bankrupt."

The problem at this time is whether this process will develop haphazardly, or whether the state will be able to take control of it and regulate it. Bankruptcy through insolvency provides such a possibility, permits the support of enterprises still in operation, and sometimes makes it possible to revive ruined enterprises with the help of a change in the form of ownership or owner. At the same time, this process also ought to help resolve two very acute problems in the Russian economy—the start of structural reorganization of production and the loosening of the complex knot of nonpayments. The whole question is whether Russia will be able to do this, and whether the state or haphazard processes will turn out to be more active.

High Excise Duties Threaten Alcoholic Drink Market

944F1384A Moscow IZVESTIYA in Russian 26 Aug 94
p 2

[Article by Rustam Arifdzhanov, IZVESTIYA correspondent: "A New Harvest and Old Excise Taxes Are the Main Enemies of Russian Vodka"]

[Text] The directors of the largest alcoholic and liquor-vodka associations of Russia have submitted an alarming letter to the government. If decisive and immediate measures are not undertaken, the budget will fall short by not less than R2 trillion before the end of the year, and within another year, half the Russian market for alcoholic products, the largest in the world, will be lost.

We have already lost more than R1 trillion this year. The Russian consumer is gradually turning away from the native commodity and, swearing at the prices for domestic, albeit better-quality products, is uncorking a bottle of a Chinese, Polish, or German beverage. He groans and knits his brow, but he drinks—it is cheaper. An even less expensive commodity comes from Belarus and Ukraine. But it is cheap only because the excise tax for vodka in these neighboring states does not exceed 75 percent. Here in Russia it is a full 85 percent.

What makes up the price of vodka? The plant release price includes the cost of the used alcohol and taxes. Add an 85 percent excise tax to the price of the vodka, to this already new price add a value-added tax, and another 23 percent of a special tax, and you may not be able to buy Russian vodka—it is too expensive. Moreover, the excise tax is calculated not just on the beverage alone, but on the commodity as an item, which includes the cork and the label, for which the producers already paid their taxes earlier.

No kinds of high customs duties on imported beverages will save the day. According to current customs collections, it is necessary to pay about R9,000 to customs for a liter of imported vodka. This means that any vodka from abroad that costs less than R10,000-R12,000 per liter is contraband. If you walk by stalls and kiosks, you will see how happy you will be with the amount of low-priced vodka that was inexplicably brought into Russia.

It is a long-standing problem. But an urgent alarm was sounded this time by Russian vodka plant owners for a rather specific reason. A further deterioration of the situation should be expected in the industry this fall. The prices for grain from the new harvest could be increased by a factor of 2-2.5. This means that the price of alcohol will increase. Vodka plants are already working at two-thirds capacity, and they could become completely paralyzed.

The outlook is for losses that will exceed the losses from the anti-alcohol campaign of 1985.

Plant directors already appealed to the government in January and April. However, there was no answer, nor specific measures to normalize the situation, on the part of the Ministry of Finance and the Ministry of Economics.

Vladimir Yarmosh, the president of a joint-stock company of producers of alcohol and liquor-vodka products of Russia, comments on the new proposals to the government:

"We believe that it is necessary to establish a 70 percent excise tax rate on vodka and 65 percent, on liquor-vodka articles. Only in this way can the prerequisites be created to restore the alcohol market, to guarantee revenues for the budget of more than R200 billion by the end of the year, and also to exclude the reasons for pseudo-bankruptcy of the best Russian alcohol enterprises, such as Moscow's Kristall. The excise tax on the export of alcohol to CIS countries should be abolished. We are losing a traditional market, and, instead of Russian alcohol, they are already buying the foreign product there. We consider it necessary to prohibit the retail sale of domestic and imported ethanol. It is on its basis that underground producers are putting out adulterated products. And finally, it is necessary to switch to the collection of the excise tax not on each produced bottle of vodka or liquor, but on the volume of alcoholic content in it.

"The amount of money that is lost as a result of a poorly reasoned and clumsy economic policy is enormous. But it is not just a question of money. Russia is on the verge of losing the market of a commodity, perhaps one of not many, that has no equal in quality in other countries. A branch that was saved after the collapse of the anti-alcohol edict is again under a threat."

Davydov's Statements on Foreign Debt Examined

944F1392A Moscow SEGODNYA in Russian 25 Aug 94
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[Article by Aleksandr Bekker: "Private Opinion With State-Level Implications"]

[Text] The statement of MFER [Ministry of Foreign Economic Relations] head Oleg Davydov that "the West must reconcile itself to the Russian debt and forgive it" was widely commented on in the Russian press. However, the stream of polarized opinions drowned an obvious question: Why such a categorical statement from the 54-year-old minister, who until now has never flirted with extremism, who on the contrary was distinguished by reserve in his judgments. The second surprise is that an experienced foreign trade professional, who in the past on various occasions used only rational arguments and precise figures, this time went for a strictly emotional undercurrent: "Nobody has ever done and probably never will do as much for Europe as Russia has." But the greatest surprise is that Oleg Davydov, who is no novice to the top political echelons and knows

diplomatic etiquette by heart, did not indicate even once in his interview that he is expressing a personal point of view.

This was done for him by Aleksandr Shokhin. The deputy prime minister's first reaction—"I cannot believe it!"—gave way to a strongly worded press release, which brings the minister's statement to the level of a private opinion: "The Russian Government does not intend to raise the issue of a full, or even partial, write-off of the foreign debt of the former USSR." Although Mr. Shokhin, the main negotiator with the West on the problem of debt restructuring, provided a clear substantiation for the official line, this communique leaves the impression of a somewhat knee-jerk reaction. In it, Mr. Shokhin contends that Russia's appeal to write off its debt may undermine confidence in its solvency, lead to suspension of foreign credits and investment, and subsequently to the country's removal from the system of international financial integration. By putting stress on such a frightening situation, the deputy prime minister appeared to attempt to close the topic in the form presented by Mr. Davydov. Meanwhile, the MFER minister did not even hint that Russia could unilaterally refuse to "pay the bills" of the former USSR. He only noted that as it is implementing postcommunist reforms, Russia has the right to count on no less understanding in the West than Poland and Bulgaria, almost half of whose debts have been written off.

According to Aleksandr Shokhin, Russia cannot command similar attention, since the ratio between its foreign debt and annual export revenue is not yet critical. But if we follow this logic, the ideal way to earn the debt forgiveness from the rich countries is to grab as much credit as possible and stop worrying about developing export sectors. The criterion cited by the deputy prime minister appears quite formal. If we take this into consideration, then, I think, we would have to include other factors as well. Not the most prosperous country, Russia, according to Central Bank data, has provided credit in an amount of R5.3 trillion to former republics of the USSR—not even the United States and Japan can afford to spend 3.3 percent of GDP on such purposes. Russia continues to subsidize the near abroad, providing oil and gas at prices 16 percent below the world level, boiler oil—28 percent, gasoline and diesel fuel—36 percent, and coking coal—4 percent below the world level. I seem not to be unable to remember anybody demonstratively not paying for product deliveries to the "big seven." Meanwhile, Belorussia [Belarus] owes Russia \$300 million, and Ukraine—more than \$1 billion. I do not seem to recall any reports on American oil tankers being hijacked, but Russian gas going to West Europe is regularly pumped out of the "pipe" by Ukrainian consumers. I assume that Mr. Davydov scrupulously collects data on the "donor burden" of Russia. The statement on the debt write-off is not at all a sensation—at least, it is not original. A year ago Konstantin Kagalovskiy, the IMF director from Russia, said that "we physically will not be able to fulfill our obligations: Instead of just

stopping payments, it is best to find a civilized solution from the start." He saw as such a solution writing off part of the former USSR debt. Of course, the work of the Russian delegation on debt restructuring is very important, and the skill Deputy Prime Minister Shokhin is displaying in negotiating with the West deserves respect. It is great that last year he was able to postpone for 10 years the repayment of \$15 billion, and this year—another \$7 billion. The principal solution of the problem does not lie in this direction, however. What is being postponed is just the repayment of the principal, but all applicable interest is still charged. As they say, the meter keeps ticking. It was not Russian specialists but IMF experts who calculated the "financial gap" indicator—the shortage of foreign currency for normal functioning of the economy. By 1999 this cumulative gap will amount to \$139.7 billion for Russia, while its foreign debt will increase to \$122.7 billion. So what are we going to do—conduct such negotiations every year until the 21st century? Based on its export potential, Russia realistically will only be able to finance its economy, service the debt, and make payments on the credits it took. It appears it will be a long time before it is able to pay back the Soviet debt. Speaking of the debt write-off, Mr. Kagalovskiy noted: "This should have been done much earlier, a year and a half ago—it is just that there was not enough political will to bring up this issue." By raising this issue today Mr. Davydov simply showed that in order to be a responsible politician a state minister does not have to hide his head in the sand. In essence, Mr. Davydov is speaking on the problem which, under favorable political circumstances, will certainly be raised to the fullest extent by the opposition. A few days ago SOVETSKAYA ROSSIYA enlightened its readers on how the IMF together with transnational banks and corporations created a mechanism for debt enslavement of developing countries. In the part regarding the "hometland," the newspaper writes: "Having accumulated debts (which then trickled back into the same Western banks), the government now is willing to surrender in exchange the shares of Russian enterprises. But unlike in the already bankrupt African countries, for us it is not a forced consent but an act of the rulers' goodwill. An act of complicity." In the context of what this newspaper wrote we may say that Mr. Davydov simply took over the initiative. We should also keep in mind his long-term warm relations with Viktor Chernomyrdin, to whom he owes his present job. Even assuming that a high-ranking government official has indeed expressed a personal opinion, it is impossible to separate his position from the actual implications. Without doubt, the problem of Soviet debt's write-off is extremely sensitive—it affects the entire fabric of international financial relations and therefore requires an extremely delicate approach. But with all the complexity of this problem, I do not think we can avoid facing it.

Financiers To Unite, Form International Financial Club

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[Interview with Andrey Nechayev, chairman of the organizing committee of the Moscow International Financial

Club, by Alla Dubinskaya; place and date not given; under the rubric "Club Life": "Financiers Unite"]

[Text] "Given the clear inconsistency in the current banking, financial, and tax policy, and keeping in mind that the capital and interests of the actors in the financial market are increasingly intertwined—banks actively cooperate with exchanges, voucher funds grow into investment companies, and insurance companies get into investment—consolidation of financiers is now more important than ever," is the firm opinion of Andrey Nechayev, head of the organizing committee of the Moscow International Financial Club. The club was founded a few days ago.

Since companies are beginning to operate in a common field—today they may be attracting money, tomorrow they may encounter a problem in placing it—one can act with certainty only by coordinating positions, providing reciprocal information, and trusting one another. This is why the club brought together everyone who is working in the financial market, has a vital stake in resolving its problems, and is capable of making such decisions. The club brought under its auspices the heads of the Russian National Commercial Bank, Imperial bank, Avtobank, Alpha-Bank, Technobank, Dailogbank, TEPCO'M, Electrobank, Yugorskiy joint-stock, and other prominent banks; investment and insurance companies: the Insurers Union, the Rain Russian investment and real estate agency, investment AO [joint-stock company] Rinako, AO Alpha, First Voucher and Moscow Real Estate voucher investment funds; and the leading exchanges—the RTSB [Russian Commodity and Raw Materials Exchange], the Moscow Interbank Foreign Currency Exchange, the Moscow Central Stock Exchange, and the Russian Stock Exchange.

[Dubinskaya] What is the advantage of the new entrepreneurs' association over others that already exist?

[Nechayev] First and foremost in that our club is oriented at financial corporate ties. The club's credo is not small talk about business but professional meetings on concrete problems.

We want to bring together the intellectual potential of practitioners for the benefit of market progress. No efforts by information services can replace direct contacts.

One of our union's tasks is improving the normative, legislative base, and preparing packages of proposals and amendments to draft laws for the president, the government, and the State Duma in the area of development of the financial marketplace and coordinating the policy of its leading actors. For this, on one hand, we assume the possibility of creating a high-powered group of experts associated with the club, and on the other—using the intellectual energy of club members, who encounter daily the imperfection of the current norms.

We will react fast to events and cataclysms in the investment, financial, and stock markets—for instance,

something like the sensational incident with MMM, where, in our opinion, we are dealing with a violation of business ethics and entrepreneurial morality. Among our potential functions is to suggest to the government and parliament options for solutions in such "hot" cases. This is especially topical if we consider that in the still wild domestic market, where a healthy nucleus of financiers is still developing, a major scandal with MMM is clearly not the last in a series of such gambles. An important part in forming the market conscience also will be creating a true image of bankers, investors, and financiers, who so far are perceived negatively by society—at best as NEP [new economic policy] men of the 1920's from the vantage point of the 1930's-1950's.

Another area of the club's efforts is legal and political protection of its members, financiers as a whole, and the entire entrepreneurial estate from bureaucratic arbitrariness and witch-hunting.

The very fact that during a peak vacation period 32 representatives of the Russian financial world came to the founding meeting—including Ivan Kivelidi, chairman of the Council for Development of Entrepreneurship under the Russian Federation Government—says that such a club is needed and is attracting interest.

[Dubinskaya] Judging by the name, the club claims an international status. What are the prospects for its contacts in the world arena?

[Nechayev] Although its first members are representatives of Moscow structures, in the future the club will become all-Russian and then international. Aware of the acute need for coordination of actions between Russian and Western financial institution in the international market, a number of international bankers have long sought personal contacts with our businessmen.

Survey of Basic Directions, Activities in Insurance Market

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[Article by Center for Economic Market Conditions under the Government of the Russian Federation: "Business Activity of Insurance Workers of Russia"]

[Text] The Center for Economic Market Conditions under the Government of the Russian Federation in June 1994 conducted its first study of the business activity of insurance organizations, which was carried out within the framework of the center's long-term program for studying the condition and prospects for the development of various sectors of the Russian economy utilizing the apparatus of market polls. Through questionnaires it revealed the opinions of leaders of insurance organizations concerning the main areas of their activity. The purpose of the investigation was to study the current situation in Russia's insurance market and the immediate prospects for its development.

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I. Description of the Sample

The poll covered 132 insurance companies from various regions of the Russian Federation, or more than 10 percent of those that had been through the process of licensing by the Federal Service for Oversight of Insurance Activity as of 1 November 1993. Their distribution in terms of organizational-legal status and amount of authorized capital is characterized by the following figures:

	Number of organizations investigated	Proportion of overall number of organizations investigated (in percentages)
Total	132	100
including:		
I. In terms of organizational-legal status		
State enterprise	16	12
Public joint-stock companies	28	21
Private joint-stock companies	47	36
Limited liability partnerships	38	29
Others	3	2
II. In terms of amount of authorized capital		
up to R10 million	39	29
R11-25 million	25	19
R26-50 million	22	17
R51-100 million	13	10
R101-150 million	6	5
R151-200 million	11	8
R201-500 million	11	8
more than R500 million	5	4

The majority of insurance companies investigated were nonstate. Among the various organizational-legal forms, the predominant ones were private joint-stock companies (more than one-third of the companies) and limited liability partnerships (about 30 percent). There were somewhat fewer public joint-stock companies. Almost two-thirds of the insurance organizations that ended up in the sample are relatively small (with authorized capital of no more than R50 million), including 29 percent (less than R10 million) that could be included in the category of small. Large companies (with capital of more than R100 million) make up 21 percent of the entire sample, and extremely large (more than R0.5 billion)—4 percent.

A comparison of these indicators with the data from statistical reports on the activity of insurance organizations makes it possible to draw the conclusion that the sample that was formed was sufficiently representative to characterize various aspects of the modern condition of the insurance market.

Most of the large companies (more than R150 million of capital) are joint-stock companies (more than 70 percent). The largest companies operate mainly in the form of public and private joint-stock companies. Among the small companies there are approximately equal proportions of all kinds of ownership. Among the medium-sized (authorized capital from R11 million to R50 million) more than one-third are public joint-stock companies and there is an equal number of limited liability partnerships.

The predominance of relatively small companies in the insurance market is also reflected in the characterization of the number of workers employed in them. Two-thirds of the organizations investigated have relatively small staffs of workers—up to 30 people (not including insurance agents).

The period of operation on the insurance market of the majority of organizations studied is limited to three years (71 percent), including 30 percent of all the organizations that have been in existence for from two to three years, 28 percent—from one to two years, and 13 percent that have been in existence for less than one year. "Adult" insurance companies (more than three years) make up 29 percent of the sample.

Naturally, the "oldest" are state companies, eight out of 10 of which have been operating in the insurance market for more than three years. Most of the limited liability partnerships that were studied are of "medium age"—from one to two years (44 percent) and from two to three years (42 percent). The highest proportion of organizations "younger" than one year are found among private joint-stock companies (19 percent). Among public joint-stock companies there is a larger proportion than the average in the sample of companies both older than three years (42 percent) and younger than one year (15 percent). As one can see, recently the majority of insurance organizations have been created in the form of joint-stock companies. Because of the relative "youth" of insurance organizations 37 percent of them do not have any branches of their own at all and 31 percent have fewer than five. Some 9 percent of the organizations have from six to 10 branches. Ramified networks (from 11 to 20) and (from 20 to 40) were found in 5 percent and 12 percent of the companies, respectively. Companies with more than 40 branches make up only 6 percent of the sample.

The state organizations that have been operating longest in the insurance market have the most ramified networks of branches—44 percent have 21-40 branches and 31 percent—more than 40 branches. Companies with other kinds of ownership have "spread out" considerably less: Among the public joint-stock companies only 18 percent have 21-40 branches and 11 percent—more than 40 branches; of the private joint-stock companies and limited liability partnerships—5 percent and 0 percent, respectively. On the whole, most of the public joint-stock companies (two-thirds) have up to 10 branches and

private joint-stock companies (83 percent)—up to five branches, and 6 out of 10 limited liability partnerships have none at all.

II. Dynamics of the Financial-Economic Position of Organizations in 1994

On the whole leaders of insurance organizations have a fairly optimistic assessment of the changes in the financial-economic position of their structures in 1994. Half of the leaders questioned think that it improved during the first half of 1994, one-fourth—that it did not change, and only 15 percent note that it deteriorated. And 10 percent of the respondents were unable to determine their assessment. An even more favorable situation is expected at the end of 1994. With the same growth indicators, 30 percent of the respondents predict stabilization and only 8 percent predict deterioration of the financial and economic position of their organizations as compared to the first half of 1994.

Among the insurance companies with various kinds of ownership the most significant improvement is found in joint-stock companies. During the first half of 1994 among private joint-stock companies 57 percent of the respondents indicated improvement in the situation and only one out of 10 indicated deterioration, and during the second half of the year—among public joint-stock companies these figures were 64 percent and 4 percent, respectively. The most favorable dynamics of this indicator is typical of limited liability partnerships (for the first half year—42 and 26 percent, for the second—35 and 18 percent, respectively).

The largest insurance organizations are in a better financial-economic situation than the others. And their leaders show enviable optimism—none of them mentions actual or possible deterioration. And, conversely, small organizations are in a relatively worse position, although their leaders too are hoping for appreciable improvement by the end of this year. By the end of 1994 there could be a significant improvement in the position of large companies, whose leaders are close to the leaders of the largest firms in their predictions.

Among the main factors impeding normal operation and having a negative effect on the financial-economic situation of insurance firms, the majority of respondents included the economic situation in the country and the tax conditions for conducting insurance business (88 percent each). Much less, although still essential, significance is attached to the shortage of their own capital (29 percent). In other words, the main current problems are seen by the leaders to be in the external economic environment and not within their own organizations. And only 3 percent of those who responded indicated that there were no special restrictions to their normal operation.

While the two most critical problems bother leaders of organizations equally, the situation is fairly differentiated with respect to other factors. Every tenth company

that is a public joint-stock company experiences no particular obstacles in its activity. For organizations with other forms of ownership there were practically no answers like this.

Almost one-third of the respondents from private joint-stock companies and limited liability partnerships mention a shortage of their own capital and only every fifth one from the state sector and public joint-stock companies do. The monopolies of a number of insurance organizations disturb mostly respondents from limited liability partnerships (21 percent). At the same time state companies practically do not experience these problems. But they note more frequently than others the existing tax conditions for the insurance business as a factor having a negative influence on their activity (94 percent).

Respondents from the largest organizations referred less frequently than others to the existing tax conditions and the economic situation in the country as factors impeding normal operation. These problems bother mostly small firms. Thus many relatively small organizations are currently faced with the most crucial problems of "survival" while large and extremely large ones are working on improvement of their activity and development.

The poll showed that 26 percent of the companies investigated have their own service for preventive measures. Among companies with various kinds of ownership this indicator fluctuates within the medium range in the sample: from 25 percent among state enterprises to 29 percent among public joint-stock companies. But the proportion of companies with the aforementioned service varies significantly depending on the authorized capital. Thus only two out of 10 companies with authorized capital of up to R25 million can afford to maintain this structure. At the same time almost half of the insurance organizations with authorized capital of from R201 million to R500 million have on their staff a service for preventive measures which makes it possible to minimize the risk from the contracts that are concluded.

III. Dynamics of Basic Indicators of the Activity of Insurance Organizations in 1994

According to data from the poll, the scope of insurance operations expanded considerably during the first half of 1994 as compared to the second half of 1993. By the end of the first half of this year every second organization investigated had increased the number of contracts concluded for personal insurance and two out of five—for property insurance (and only every fifth one had reduced these numbers). On the whole there was a reduction of operations for liability insurance (17 against 33 percent).

In the second half of 1994 the organizations that were investigated are expecting an increase in the demand for their services. Personal and property insurance will be provided on a larger scale than during the first half of the year: 59 percent and 46 percent of the respondents,

respectively, are anticipating an increase and only 11 percent—a reduction in the number of contracts concluded. Mandatory insurance will expand somewhat more rapidly (9 percent as against 2 percent) and the reduction of the volumes of liability insurance services will slow up (20 percent against 25 percent).

At the same time more than half of the managers plan to increase and practically nobody intends to decrease the variety of services of their organizations.

On the whole the extremely large companies are expanding their portfolios of contracts most actively. Thus during the first half of 1994 they increased their volumes of contracts for personal and property insurance more significantly than others did, they moved somewhat ahead in terms of mandatory insurance, and on average for the sample they decreased their numbers of contracts for liability insurance. The situation is the worst with small firms, which reduced their portfolios for three out of the four areas, only somewhat increasing the volume of mandatory insurance. During the current half year, according to predictions, their situation will improve somewhat. But, as before, they will lag significantly behind the leaders—the extremely large firms. It should be noted that during this half year there is to be an appreciable “splash” of activity with mandatory insurance among medium-sized firms.

As the number of organizations operating in the insurance market increases, state companies have begun to encounter more and more significant difficulties. Against the background of the expansion of the scale of personal and property insurance by organizations with other kinds of ownership, state organizations sharply curtailed this kind of insurance during the first half year and it is expected to decrease during the second half of this year as well. Thus 82 percent of their managers reported a reduction of their portfolios of contracts for personal insurance and 68 percent—for private insurance by the middle of 1994, and 50 percent and 43 percent, respectively, anticipate this by the end of the year (only 6 percent and 13 percent project an increase). State companies reduced their volume of contracts for liability insurance more significantly than others and they anticipate reducing them even more. At the same time they were the only ones to reduce the scale of mandatory insurance during the past half year.

On the whole, private joint-stock companies ended up in the most favorable position. During the first half year they most appreciably expanded their portfolio of contracts for personal insurance (almost two-thirds of the managers reported growth and only 6 percent—a reduction of the number of these contracts) and for property insurance (48 percent and 11 percent, respectively). Judging from the assessments of the respondents, private joint-stock companies will be the leaders in this area and also in liability insurance during the second half of 1994 as well (corresponding shares: for personal insurance—77 and 2 percent, property insurance—54 and 2 percent, and liability insurance—0 and 13 percent).

Linked to the competition that has appeared in the insurance market is the desire on the part of many organizations to expand the variety of services they offer. As the investigation showed, during the first half of 1994 a considerable proportion (42 percent) of insurance companies expanded the variety of services offered to their clients (only 6 percent reduced them). And more than one-fourth of the respondents indicated that they had unique and rare kinds of insurance operations in the range they offered.

Public joint-stock companies are the leaders in terms of expansion of the variety: six out of nine companies increased the number of kinds of insurance offered to their clients during the past half year and an equal number intend to increase it during this half year.

An appreciable improvement is expected during the second half of 1994 among public joint-stock companies (from 40 to 53 percent) and limited liability partnerships (from 26 to 45 percent). It should be added to this that unique and rare kinds of services for the insurance market are more widespread among private joint-stock companies than others (almost every third one offers these services). State companies are the least inclined to expand the variety of their services.

During the first half of 1994, in addition to increasing their contracts the largest companies expanded the variety of their services to the greatest degree as well. They reported the existence of unique and rare kinds of services more frequently than others. But during the current half year large firms could outpace them. And small firms will be “closing the gap.”

According to figures from the poll, during the first half of 1994 the number of insurance company clients that are commercial structures increased more rapidly than during the second half of 1993: 47 percent of the respondents reported an increase and only 14 percent—a reduction of the number of clients in this category. The range of consumers of insurance services who are individuals expanded less intensively (47 percent as against 21 percent) and state enterprises (38 percent as against 18 percent).

During the second half of 1994 managers of insurance companies intend to work even more actively with all categories of clients: More than half plan to increase the number of clients from among individuals and commercial structures, and 43 percent—from among state enterprises (and only approximately every tenth one predicts a decrease). At the same time, on the whole, as before, greater preference is given to commercial structures.

The investigation showed that although on the whole the number of clients of insurance companies from among the population is growing, in the state sector it is decreasing. During the first half of 1994 it had increased in only 13 percent of the state companies and in 62 percent of them the number of individual clients had decreased; during the second half of the year this

decrease continued—25 percent and 37 percent, respectively. The most active in enlisting clients from among the population are private joint-stock companies (during the first half year—57 percent and 11 percent, and the second half year—64 percent and 4 percent, respectively). Joint-stock companies are expanding their contacts with state enterprises and commercial structures on a larger scale than are companies with other kinds of ownership. And in the first half year public joint-stock companies led the way while in the second half year, according to estimates, private joint-stock companies will be the leaders.

During the first half year the extremely large insurance companies sharply outstripped the rest in terms of the scale of expansion of clients of all categories. On the whole they will be the leaders during the second half year as well after giving way somewhat to large companies in attracting population. Both in actuality and according to predictions small companies will be in a worse situation than others with respect to attracting population.

The number of personnel and insurance agents are important indicators of the development of insurance organizations. Almost half the leaders noted an increase in the number of personnel in their insurance companies during the first half year and 18 percent—a decrease. One-third of them reported that the level of employment was the same as during the second half of 1993. During the second half of 1994 the number of basic workers will increase on approximately the same scale: 37 percent of the respondents predict an increase and 8 percent—a reduction of this indicator.

At the beginning of 1994 the staff of insurance agents had expanded to approximately the same degree as the basic personnel. An increase was reported by 47 percent of the respondents, a decrease—by 15 percent (unchanged—27 percent). Approximately every tenth respondent was unable to answer this question. But by the end of the year, according to estimates, the growth rate of the number of insurance agents will accelerate appreciably and outpace the growth of basic personnel—52 percent and 6 percent, respectively.

Against the background of the overall expansion of employment in the insurance sector, only in state companies was there a significant reduction of it during the first half year: Only 19 percent of the respondents from state companies noted a growth in the number of basic personnel and the number of insurance agencies while 62 percent and 56 percent of the respondents, respectively, noted a decline.

By the end of this year in the state sector there is expected to be a further, although smaller-scale, reduction of basic personnel (13 percent) and the staff of agents (19 percent). According to estimates the number of basic personnel is increasing more rapidly in private joint-stock companies than in other organizations: Two-thirds of their managers noted a growth and only every tenth—a decline in the number of basic personnel during

the first half year, and 51 percent and 4 percent, respectively, are expecting this during the second half of 1994. Private joint-stock companies will be the leaders during this half year in terms of the recruitment of insurance agents as well (64 percent and 4 percent). During the last half year limited liability partnerships were most active in this area (50 percent and 36 percent).

Large and extremely large companies are appreciably ahead of others in terms of the expansion of the number of basic personnel and insurance agencies. During the first half year extremely large ones were in the lead, and during the second half year, according to predictions, large organizations will be in the lead. One can assume that the enlistment of new personnel will help large and extremely large insurance organizations to diversify the market of services to a certain degree before the end of this year. The least favorable employment dynamics are in small firms, which at the beginning of the year had even reduced the number of their personnel.

It should be noted that personnel problems were mentioned as one of the factors restricting normal activity of insurance companies by only 27 percent of those polled. And this factor has the least effect on the work of insurance firms that are limited liability partnerships (only 13 percent consider it essential), and the greatest—on state companies and private joint-stock companies (38 percent). In spite of the most intensive increase in the number of people employed in large companies, half of them are experiencing personnel problems. At the same time only one-fourth of the respondents from small organizations are bothered by this.

IV. Basic Consumers of Insurance Services

According to estimates that were received, even now in the activity of insurance companies there is a fairly clearly manifested orientation toward various segments of the market of consumers of insurance services. Although the majority of insurance companies (58 percent) aim at serving both organizations and individual citizens, another part serves target groups of clients. Thus about 30 percent are oriented toward insurance of the first category of clients alone, and the second category—12 percent of all the companies investigated.

Among the legal entities, the main consumers of insurance services are industrial enterprises: 63 percent of the companies work with them. The largest proportion is made up of commercial firms (companies, establishments)—48 percent, and commercial banks—34 percent. Then come agricultural enterprises—27 percent, and the sphere of services—25 percent. The least frequently encountered are industrial-financial companies—17 percent. About half of those who responded indicated that they work with other organizations.

The largest part (47 percent) of the companies working with the population are equally oriented toward all groups of citizens. At the same time 14 percent of the

insurance companies basically render services to high-income groups of the population; 30 percent serve citizens with average income. And every tenth organization works with low-income groups of the population. Apparently they are attracted by the large volume of the corresponding segment of the market, and above all such a group as pensioners.

State companies (three-fourths) are oriented appreciably more than others toward the performance of services for all categories of clients. Their managers also much more frequently reported an orientation toward the population (every fifth one). At the same time they mentioned legal entities considerably less frequently (6 percent).

Judging from the results of the poll, 81 percent of the state companies take all segments of the population into account in their work (organizations with other kinds of ownership—no more than half). At the same time joint-stock companies take into account more the differentiation of the population according to income groups.

A larger proportion of limited liability partnerships as compared to companies with other kinds of ownership is aimed at serving legal entities (39 percent) and at the same time a smaller proportion is aimed at serving the population.

No less than half the respondents from insurance organizations with each kind of ownership mentioned industrial enterprises as their main clients, and among public joint-stock companies—three-fourths. But with respect to other consumers of insurance services such “unanimity” does not exist. In particular, 81 percent of the state companies consider agricultural enterprises to be their main clients, while considerably fewer public joint-stock companies (32 percent) and private joint-stock companies and limited liability partnerships (approximately 15 percent each) do. Commercial firms are preferred by two-thirds of the limited liability partnerships, 49 percent of the private joint-stock companies, 43 percent of the public joint-stock companies, and only 19 percent of the state companies. Commercial banks are the target of 45 percent of the limited liability partnerships, and 32 percent of the joint-stock companies, but only 19 percent

of the state companies. Also respondents from limited liability partnerships relatively more frequently (37 percent) and the state sector—less frequently (13 percent) than others mentioned organizations from the sphere of services as their clients. The latter are oriented least of all toward service for industrial-financial companies (6 percent) (public joint-stock companies are in the lead here—21 percent). On the whole the most “widespread” in terms of covering legal entities as clients were the limited liability partnerships (an average of 40 percent of the limited liability partnerships are for each category of basic clients; for state organizations and private joint-stock companies—approximately 36 percent, and public joint-stock companies—38 percent).

Approximately the same proportions of companies with various amounts of authorized capital are oriented toward serving all categories of clients to an equal degree. Extremely large organizations are oriented more than others toward work with legal entities, and large insurance organizations—less than others. Conversely, extremely large companies are oriented less toward serving individuals, and large ones—more so.

In all groups of insurance firms the most widespread clients are industrial enterprises. And they are served considerably less frequently than others by small companies, which have a noticeable lead in work with agricultural enterprises. The “rarest” client in the sample were industrial-financial companies, which prefer to work with extremely large insurance firms. Commercial firms (companies, establishments) are “quoted” approximately the same among companies of various sizes as are organizations from the sphere of services. As concerns orientation toward various groups of the population, it differs significantly only with respect to clients with low incomes. None of the respondents from extremely large companies considered them their basic clients, but almost every fifth one of the small firms did.

The distribution of the insurance organizations that were investigated in terms of the number of their clients during the first half of 1994 is given in the following table.

Types of insurance companies	Categories of clients								
	Individuals			State enterprises			Commercial structure		
	up to 100	101-500	more than 500	up to 100	101-500	more than 500	up to 100	101-500	more than 500
State	0	6	88	38	25	19	34	26	25
Public joint-stock companies	25	15	57	43	22	25	21	35	25
Private joint-stock companies	26	15	49	57	20	6	60	25	11
Limited liability partnerships	34	19	29	42	18	0	47	29	3

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The majority of state companies that were investigated (88 percent) had concluded contracts with more than 500 clients who were individuals. The highest proportion (one-fourth)—public joint-stock companies—serve more than 500 clients that are both state enterprises and commercial structures. A large proportion of the private joint-stock companies have the opportunity to work only with a limited number (up to 100) of state enterprises (57 percent) and commercial structures (60 percent). This pertains also to a considerable proportion of the limited liability partnerships (42 percent and 47 percent, respectively). Practically none of the insurance firms that are limited liability partnerships have concluded agreements with more than 500 state enterprises and commercial structures; at the same time not a single state company is working with less than 100 state enterprises.

V. Kinds of Insurance Services Rendered

The poll showed that among the companies investigated there is no appreciable specialization in terms of areas of insurance activity. The majority of these companies offer the consumers, as a rule, the classical kinds of insurance. Thus two-thirds of the companies provide insurance of the property of enterprises and organizations, the property of citizens (62 percent), and accumulative insurance (59 percent). Approximately half of the companies render services for life insurance and insurance of means of transportation; and 45 percent—freight insurance. About 30 percent of the respondents reported that they work in the very young sub-branch of private insurance—medical insurance. Because of the shortage of capital, among insurance organizations there has not yet been the proper development of such an area of insurance activity as reinsurance. Only about one-third of the companies investigated engage in this. At the same time an equal number of companies handle insurance of financial and commercial risks, including credit insurance. Because of the large number of cases of failure to repay bank credit, on which the insurance companies are not able to reimburse the losses, this kind of insurance can be placed in the category of extremely questionable. But this super profit operation, which gives the insurers up to 12-17 percent of the value of the credit, motivates certain companies to engage actively in this activity in this stage of their establishment.

About one-fourth of the respondents handle liability insurance for owners of means of transportation. Less frequently encountered are such services as insurance of civil liability (12 percent) and technical risks (7 percent). So far Russia still has an extremely insignificant proportion of companies handling voluntary insurance for additional pension. Thus most of the operations performed by insurance companies are linked to personal and property insurance.

State companies are the most diversified with respect to services rendered. At the present time here on average per one service 46 percent of the organizations are covered (in the sample as a whole—34 percent). And the

state sector is the leader in "coverage." Of approximately every second one of the services listed in the questionnaire. A larger proportion of state companies than companies with other kinds of ownership provide life insurance (risk and accumulative), property (of citizens, enterprises, and organizations), of means of transportation, mandatory insurance, and reinsurance operations.

The closest to the state sector in activity are public joint-stock companies (on average 38 percent of the organizations for one kind of services). They are more active than average in the same areas (life insurance is an exception). But their managers report more frequently than all the rest the availability of services for insuring freight and also services for insuring civil liability and technical risks, which are the rarest in the sample. Less diverse in their operations are private joint-stock companies (on average 33 percent for one kind of services). The list is "closed" by limited liability partnerships (30 percent) which lag behind in terms of "covering" almost half the services, but they lead in insuring financial and commercial risks.

State companies, while maintaining their leadership in terms of the number of services rendered, traditionally prefer to deal more with private individuals. At the same time, as with companies with other kinds of ownership, a large proportion of the services are oriented toward property insurance of legal entities, which provide significant premiums with relatively small expenditures. Apparently nonstate companies react more sensitively to changes in conditions in the insurance market.

Companies that are distinguished by the amount of their authorized capital focus their attention on various kinds of services. Thus small (up to R10 million) firms are considerably less frequently than others involved in risk life insurance and also insurance of owners of means of transportation, but significantly more frequently—in mandatory insurance. Medium-sized organizations (from R11 million to R50 million), like small ones, are less active in insuring owners of means of transportation and lag behind the others in terms of accumulative life insurance, freight insurance, and reinsurance operations. Large companies (from R51 million to R150 million), while lagging behind the others in insuring the property of enterprises, and organizations and mandatory insurance, conduct operations for voluntary medical insurance and (along with extremely large ones) for insuring freight and owners of means of transportation on a larger scale.

Extremely large firms (more than R150 million) are most active in insuring the property of enterprises and organizations, technical risks, civil liability, and reinsurance operations, but they lag behind in voluntary medical insurance.

VI. Financial Resources

An analysis of data from the poll shows that the main sources of income for the majority of insurance companies are investments of insurance reserves (69 percent of

the respondents indicated them) and insurance operations (65 percent). The other sources of income—circulation of collected premiums and internal funds—play an important role for only 17 percent and 11 percent of the organizations, respectively. As the investigation showed, the majority of insurance companies prefer to place their monetary funds in deposits in commercial banks (97 percent of the respondents). A considerably smaller proportion of the respondents mentioned as the main areas for distribution of their reserves investments in nonstate securities and other participatory rights (29 percent), state securities and real estate (23 percent). In spite of the continuing inflation processes, only 7 percent of the companies consider their main area for placement of funds to be investments in currency assets. Apparently the established 10-percent limit on the amount of insurance reserves makes it impossible for the companies to consider these investments as their main source of income.

The fairly successful financial activity of many organizations is shown by the data on the dynamics of their internal monetary funds. Thus at the beginning of 1994 internal monetary funds had increased for approximately nine out of 10 of the companies investigated and they had decreased at only 5 percent of them. And the coefficient of payments to their clients did not decrease for 31 percent of the insurance organizations and it increased for 61 percent. The respondents give quite optimistic predictions of the dynamics of this indicator for the second half of 1994 as well. Approximately, 8 out of 10 predict an expansion (and only 3 percent—a reduction) of the internal monetary funds of their organizations. The same proportion of managers (81 percent) do not expect a reduction of the coefficient of payments. And 45 percent think that they will increase.

According to the data received, during the first half year state companies and joint-stock companies increased the volumes of their monetary funds with approximately the same intensiveness (the difference between the proportions of respondents who indicated a growth and those who indicated a reduction of internal capital amounted to 86 percentage points). The state of affairs is worst in limited liability partnerships (76 points). This is partially explained by the fact that the majority of limited liability partnerships (almost three-fourths) have increased their coefficient of payments to clients (only 3 percent have decreased it).

During the second half of 1994 public joint-stock companies intend to increase their monetary resources to a greater degree than organizations with other kinds of ownership: 86 percent of the respondents anticipate growth and none anticipate a decline. Limited liability partnerships are less hopeful about expanding their internal funds (74 percent and 5 percent). Correspondingly, they expect a significant slowing up of the growth of payments: Only 40 percent of the respondents predict an increase, and 5 percent—a decrease in the coefficient of payments. The greatest increase in this indicator is anticipated in the state sector—49 percent (0 percent).

Insurance organizations with various amounts of authorized capital assess their main sources of income in various ways. Extremely large companies are more active than the others in circulating internal funds but have weaker investments in insurance reserves. Conversely, large organizations are more oriented toward investments but receive income from insurance operations and circulation of their own funds to a less degree than others. Medium-sized firms on the whole more intensively circulate the premiums they collect.

The unquestioned leader in expansion of internal funds during the first half year and, according to estimates, during the second half of 1994 are the extremely large insurance organizations. But the growth of the coefficients of payments to their clients did not increase as actively for them in the past and it is not expected to in the future. At the beginning of the year small firms lagged appreciably behind the others in terms of expansion of their internal funds and increasing payments. But by the end of the year they expect a certain increase in the latter indicator.

VII. Competition and Activity in the Area of Marketing

According to the data from the poll, the majority of insurance organizations (55 percent) at the present time are experiencing all the competition in the insurance market, 38 percent—partially, and the rest (7 percent)—could not provide an answer. And competition is experienced least by the extremely large companies.

An important indicator of the advancement of an organization in the insurance market and the occupation of new positions in it is activity in the sphere of development of its branch network. According to data from the poll, insurance companies are not yet active enough in expanding the network of their branches. Thus only one-fourth of the respondents noted that in the first half year and 22 percent anticipate that in the second half of 1994 there will be an increase in the number of branches of their organizations. There were reports that this will be reduced (8 percent and 5 percent of the respondents, respectively).

Apparently, under current conditions for state enterprises the current number of branches is close to the maximum since not one of them expanded the network of their branches during the first half year and none intends to expand them during the second half. And during the past half year 9 percent of the state companies even reduced this number.

Among companies with other kinds of ownership private joint-stock companies increased and plan to increase the network of their branches to the greatest degree: 36 percent of their managers noted during the first half year and 26 percent predict for the second half year a growth in this indicator (and about 3 percent—a reduction of it).

Relatively young large firms increased the network of their branches more than others during the first half year and plan to increase it more during the second half year.

Under the conditions of the growing competition, market research helps to occupy and maintain one's position. But, as the questionnaire showed, insurance organizations do not engage in this activity sufficiently. At the same time individual elements of this research are already being used in the domestic insurance business. Insurance organizations devote most attention to the development of new kinds of services (45 percent of the organizations). They are engaged to a lesser degree in research in order to organize advertising (36 percent) and to study the activity of competitors (30 percent). Such areas as promotion of services and singling out target segments of potential markets interest only 22 percent and 18 percent of the insurance companies, respectively.

The greatest activity in the area of marketing research, according to the data received, is manifested by public joint-stock companies: Approximately one-third of the organizations are engaged in each kind of research (for the sample as a whole—27 percent). The most active on this plane are limited liability partnerships (22 percent). Respondents from the state sector reported less frequently than others that they were conducting the corresponding research for singling out target segments of clients—6 percent (while for public joint-stock companies this indicator is 29 percent, private joint-stock companies—21 percent, and limited liability partnerships—13 percent). State organizations are more active in studying the activity of competitors (38 percent) and organizing advertising (44 percent). Approximately half of the state organizations and joint-stock companies and one-third of the limited liability partnerships devote attention to developing new kinds of services. Studies in the area of promotion of services are conducted most actively by public joint-stock companies (32 percent) and then come private joint-stock companies and limited liability partnerships (22 percent each); the least active is the state sector (only 6 percent). The greatest activity in all kinds of marketing research is manifested by large firms. Extremely large companies are only ahead of them by a small amount in the study of the activity of competitors. And the latter lag behind the others in the development of new kinds of services. On the whole the most passive in their activity are medium-sized firms which, in particular, engage less than others in research to study competitors and in the area of the organization of advertising and the promotion of services.

Among the various means of attracting clients almost three-fourths of the respondents attribute the greatest results to work with insurance agents. One-third of those who responded prefer to place advertising in the press and take advantage of recommendations of partners. Advertising on radio and television was noted by 24 percent of the respondents. Almost one-fourth of the insurers use other means of attracting clients.

The effectiveness of advertising on radio and TV is assessed approximately the same in all groups of respondents (about one-fourth consider it effective). Managers

of organizations from the state sector ascribe relatively greater effectiveness to the work of insurance agents (88 percent) (for the rest—68-74 percent) and they value recommendations of partners relatively less (13 percent) (32-40 percent).

VIII. Prospects for the Development of the Insurance Business During the Second Half of 1994

The results of the poll show that managers of insurance companies are fairly optimistic in their assessment of conditions of the market for insurance services during the second half of 1994. And they predict the dynamics of the basic indicators of the business activity of their organizations as follows:

- almost 60 percent of the respondents hope for an increase in the number of contracts concluded for private insurance, 46 percent—for property insurance; but only 20 percent—for liability insurance;
- approximately 55 percent in each category expect a growth of the number of clients from among individuals and commercial structures, and 43 percent—from among state enterprises;
- more than half report a possible expansion of the variety of insurance services;
- eight out of 10 respondents predict an increase of the internal monetary funds of their organizations;
- more than 90 percent of the managers do not anticipate a reduction of the coefficient of payments and 45 percent expect it to increase; 8 out of 10 respondents think that the financial-economic position of their enterprises will not get worse and every second one hopes for it to improve;
- only 8 percent of the managers intend to reduce the number of their personnel;
- more than half are counting on increasing the number of insurance agents;
- almost one-fourth report a possible expansion of the network of branches of their companies.

Production Down, Signs of Stagnation in First Half 1994

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[Article by Vladislav Belyanov, professor at Moscow University of Commerce, and Antonina Belyanova, docent at Moscow State University: "Recession Evolving into Stagnation; Results of Monthly Surveys of Industrial Enterprise Administrators in First Half of 1994"]

[Text] DELOVOY MIR is continuing its reports on the summarized data of the survey results obtained by the

editors of the independent bulletin, "The Russian Economic Barometer." The monthly surveys of the administrators of Russian industrial enterprises have been conducted according to the same procedure since December 1991. The results of all of these surveys have been reported in DELOVOY MIR (see the issues dated 25 March 1993, 28 August 1993, 11 January 1994, and 14-20 March 1994). The combined results of the surveys for the first half of 1994 are presented in this article.

We will remind our readers that the respondents consist of around 150 administrators of industrial enterprises in various locations in Russia. It is significant that these are typical Russian enterprises—average in terms of the number of employees (800-1,200) and in terms of wages (154,000 rubles in June 1994). During the first half of this year the proportional number of state enterprises in this group decreased from 25 to 18 percent. The enterprises operate primarily in the domestic market.

Have the Professionals Been Wrong?

For two years we were pleased to report that the opinions of the directors were reliable and highly accurate, and we saw this as an indisputable indication of their thorough

knowledge of the facts and their precise and expert understanding of current trends. The surveys of the first half of 1994, however, have raised questions about the accuracy of these judgments. The directors have been making serious mistakes. The data in Table 1 are an indication of this.

Looking ahead six months into the future, the directors of the typical Russian enterprises predicted a certain degree of stability in their production output: They believed that the actual volume of goods, work, and services in March 1994 would be equivalent to 98 percent of the figure for September 1993, and that the volume in June 1994 would even be equivalent to 102 percent of the figure for December 1993. The actual indicators, however, were much lower—87 percent and 85 percent respectively. Instead of stability, there was a pronounced decline. The directors were 11 points off in the first case and 17 in the second (for the sake of comparison, the margin of error in earlier six-month forecasts of this indicator was no more than 1-5 points). The inaccuracies of the latest forecasts are not the only problem. Something else is more important: The administrators expected stability, even if only in a fragile form (at the very least, there was still the hope of imminent recovery), but what actually occurred was the opposite.

Table 1. Some Summary Indicators for First Half of 1994 and Forecasts for Second Half of 1994 (in percentages)

Categories	Mar 94 in relation to Sep 93		Jun 94 in relation to Dec 93		Jun 94 forecasts	
	Oct 93 forecast	Actual	Jan 94 forecast	Actual	Sep 94 in relation to Jun 94	Dec 94 in relation to Jun 94
1. Real volume of goods, work, services	98	87	102	85	90	93
2. Number of employees (including free-lance, contracted, job-sharing, etc.)	97	93	95	91	93	91
3. Real volume of capital investments	46	40	41	44	—	24
4. Capital investments not made or planned (actual, in % of number of respondents)	—	23	—	36	—	—
5. Average price of produced goods	239	182	185	155	119	142
6. Average price of purchased goods	293	230	224	197	134	173
7. Average wage of employees (including free-lance, contracted, job-sharing, etc.)	193	160	160	142	115	133
8. Financial status of enterprise in 6 months (forecast; in % of number of respondents):						
a) worse	24	—	28	—	44	41
b) approximately the same	48	—	53	—	46	46
c) better	28	—	19	—	10	13
9. Actual financial status of enterprise (in % of number of respondents):						
a) bad	—	83	—	79	—	—
b) average	—	17	—	21	—	—
c) good	—	1	—	0	—	—

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That was not the only error the directors made. The forecasted rates of inflation deviated even more from the actual figures.

The directors expected the rate of price increases to remain high. In October 1993 they thought that their sale prices would be 2.4 times as high and purchase prices would be 2.9 times as high in six months. It is true that by December 1993 the half-year forecasts were reduced to 1.8 times for sale prices and 2.2 times for purchase prices. In reality, however, price increases were much lower: The October forecasts were 50-60 points off, and the December forecasts were approximately 30 points off.

Therefore, prices rose more slowly than they expected, but this did not lead to recovery: Production figures continued to decline, the reduction of employment accelerated (during the six months 15 percent of the total labor force left enterprises, while new employees represented only 5 percent of the total), the gap between the growth of nominal wages and price increases grew wider, the disastrous reduction of the actual volume of capital investments continued (the directors were not mistaken in their assessment of this tendency), and the financial status of enterprises continued to grow worse (only 1 percent of the respondents described their financial status as good in March 1994, and in June 1994 this description was not used by anyone at all).

It is not surprising that there is not even a trace of optimism in the forecasts for the second half of 1994. Respondents feel that the actual volume of goods, work,

and services in December 1994 will be another 7 percent below the June 1994 figure, employment will be reduced by 9 percent, sales prices will rise 42 percent and the prices of purchased goods will rise 73 percent, and the actual volume of capital investments will be less than one-fourth of the previous figure. Almost nine-tenths of the respondents do not expect the financial status of their enterprises to improve by the end of 1994, and around 30 percent view bankruptcy as a distinct possibility in the next year or two.

On the Threshold of Protracted Stagnation

The whole production system of the surveyed enterprises continued to deteriorate in the first half of 1994. The actual volume of production capacities in June 1994 was 15 percent below the figure for June 1993, but even these reduced capacities are being used by just over 50 percent: According to the monthly polls, the use of these capacities in comparison with the "normal" workload for the season decreased from 65 percent in January to 55 percent in June, and the "workload" of the existing personnel staff decreased from 75 percent in January to 69 percent in June. During the same period the level of actual orders in relation to potential orders fell from 71 to 64 percent. The proportional number of enterprises not acquiring any new equipment rose from 54 percent in January to 66 percent in June. The aging of the production system and the loss of labor skills are evident.

The result is a higher percentage of enterprises with surplus material and labor resources (see Table 2).

Table 2. Anticipated Levels of Production Capacities and Manpower in Relation to Demand for Enterprise Products in Next 12 Months (in % of number of respondents)

Categories	Jun 93	Sep 93	Dec 93	Mar 94	Jun 94
A. Production capacities					
1. Surplus	21	32	38	40	52
2. Average	55	40	47	45	40
3. Shortage	25	28	15	14	9
B. Manpower					
1. Surplus	16	29	32	24	34
2. Average	57	49	56	56	48
3. Shortage	26	22	22	20	18

The data in Table 2 illustrate the rapid growth of surplus production factors in relation to the demand anticipated in the next 12 months for the products of enterprises. In June 1993 surplus production capacities were reported by 21 percent of the respondents, but in June 1994 this was already being reported by 52 percent of the respondents—i.e., more than half. Surplus manpower was reported at 16 percent of the surveyed enterprises in June 1993, but in June 1994 there was a surplus at 34 percent—i.e., one out of every three.

It is not difficult to see that the process of the degradation of production is becoming (or perhaps has become) irreversible. The only possible result is a protracted depression lasting at least 5-7 years, until there are substantial changes in the structure of savings and accumulations. This amount of time would be sufficient for the loss of virtually all of our complex science- and capital-intensive production units and skilled labor teams. Incidentally, the respondents insisted that the end of the crisis and the start of economic recovery cannot be anticipated for at least six years.

Investment Impasse—a Harbinger of Stagnation

In the first half of 1994 the surveyed enterprises fulfilled their investment plans by only 37 percent,

and the total volume of capital investments in real terms was equivalent to 39 percent of the figure for the same period last year. The reasons are explained in Table 3.

Table 3. The Main Factors Deterring Capital Investments at Enterprises (in % of number of respondents; choice of no more than three)

Factors	Jun 93	Sep 93	Dec 93	Mar 94	Jun 94
1. Shortage of rubles	65	70	72	49	58
2. High prices of equipment, construction, etc.	72	75	70	59	57
3. High bank interest rates	32	39	42	44	41
4. Large debts	19	24	24	29	37
5. Surplus production capacities	5	12	6	9	12
6. Low profit margin of investment projects	—	2	6	7	8
7. Little incentive for management to develop enterprise	4	3	3	5	4
8. Tendency to "conserve" resources due to uncertainty of general situation	2	5	1	3	4
9. Shortage of foreign currency	8	6	6	2	3
10. Interruptions in deliveries from CIS countries	4	3	1	2	0
11. Privatization	4	4	1	—	—
12. Other	3	8	6	8	5

As we can see, the four items at the top of this list are the familiar factors reflecting the severe financial crisis. New structural factors had an impact: The influence of purely market factors—high prices of equipment, construction, etc.—is being reduced in favor of the stronger influence of administrative factors, primarily taxes and the interest rates on Central Bank credits. Enterprise indebtedness is also more serious: In the past year the relative influence of this factor almost doubled (it was mentioned by 19 percent of the respondents in June 1993 and by 37 percent in June 1994). The result is the negligible percentage of total credits acquired in the past six months

for capital investments—17 percent in the first half of 1993 and only 7 percent in the first half of 1994. Obviously, credits are being used primarily for current needs. As we already noted, approximately one out of every three of the surveyed enterprises made no capital investments at all, and one out of every four did not even take the risk of borrowing money, and this occurred in spite of the slight improvement in bank credit terms (it was mentioned by only 1 percent of the respondents in January, but by June the figure was 15 percent).

There have been no positive changes in investment patterns (see Table 4).

Table 4. Some Indicators of Capital Investment Patterns in Previous Six Months (in % of total capital investments)

Categories	Jun 93	Sep 93	Dec 93	Mar 94
1. Capital investment financing structure:				
a. Enterprise's own funds (profits, amortization)	72	65	75	77
b. Outside funding (credit, stock, etc.)	19	28	25	23
2. Relative proportions of production and non-production (social, cultural, consumer projects) capital investments:				
a. Production	65	60	75	64
b. Non-production	30	36	25	36
3. Technological structure of production capital investments:				
a. Passive elements (buildings, installations)	46	54	46	43
b. Active elements (machines, equipment)	54	46	54	57
4. Reproductive structure of production capital investments:				
a. Augmentation of production capacities	32	33	33	30
b. Replacement, renovation, repair	59	65	67	70

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The data in Table 4 indicate that only around a third of all investments are used for the augmentation of production capacities, while over two-thirds are used for the maintenance of existing capacities, although even this has not been enough to stop the process of their absolute reduction.

Proportional expenditures on active elements of production capital, proportional outside funding, and proportional investments in sociocultural and consumer projects are still low.

There is no question that the investment impasse is blocking the road to new equipment and advanced technology and paving the way for an increasingly primitive economic structure.

Administrative Stifling of Economic Growth

The data in Table 5 are assessments of the factors deterring production growth.

Judging by the responses, production growth is being impeded, just as it was in 1993, by the financial crisis and the related sales crisis. Two factors are clearly in the lead—the shortage of funding and the high tax rates. The relative influence of the price factor is somewhat weaker, but this is definitely a relative influence, because the price level is irrelevant when there is no money to pay the price. The reduction of the demand for the products of the respondents' enterprises probably stems from the same factor: It is simply that potential customers have no money to spend.

The administrative nature of the financial crisis is becoming increasingly evident and is clearly inconsistent with the interests of national producers.

Production is being stifled by the nonpayment crisis. According to the data of monthly surveys, 79-83 percent of the respondents described the financial status of their enterprises as bad in the first half of 1994, and not one described it as good. In June 1994 the overdue payments of the respondents' enterprises to other enterprises were equivalent to 243 percent of their monthly production output. Furthermore, 30 percent of the nonpayments were more than three months late, and 3 percent were more than a year overdue. Under these conditions, investments, social development, and other such considerations are out of the question.

The tendency toward physical exchanges is growing stronger. Proportional barter transactions increased over six months from 11 percent in December 1993 to 19 percent in June 1994. The proportional number of enterprises reporting this increase rose from 34 to 41 percent in the same period. The actual indicators are probably higher, because the reports frequently do not include the exchange volume covered by clearing agreements.

Therefore, the monetarist experiment in the "institution" of a market is "killing" the market in a manner incomprehensible to its authors.

Table 5. Which Factors Have Deterred Production the Most at Enterprises in the Last Six Months (in % of number of respondents; a choice of no more than three)

Possible causes	Jul 93	Oct 93	Jan 94	Apr 94	Jul 94
1. Shortage of funding	61	64	65	69	67
2. High taxes	37	48	63	56	65
3. Insufficient demand for products	38	34	50	53	50
4. High prices of crude resources, materials, semimanufactured goods	54	53	52	50	47
5. Shortage of crude resources, materials, semimanufactured goods, etc.	27	18	14	14	19
6. Shortage of manpower	9	7	3	4	6
7. Errors in enterprise management	7	2	5	7	6
8. Shortage of equipment, production capacities, premises	7	6	0	3	1
9. High cost of manpower	4	7	3	2	1
10. Organizational difficulties*	1	0	3	5	1
11. Privatization	1	1	2	1	1
12. Other	3	6	7	5	6

* In the 1993 questionnaires this possible cause was worded differently: "shipping and data processing difficulties."

Is It More Important To Stimulate Production or Curb Inflation?

There is an unmistakable economic inaccuracy in the formulation of this question by the authors of the

questionnaire, but it is certainly justified in this situation, and this is clear from the reaction of the respondents (see Table 6).

Table 6. Which Do You Think Is More Important for the Russian Economy Now: A Lower Rate of Inflation or the Stimulation of Production? (in % of number of respondents)

Possible responses	Oct 93	Nov 93	Feb 94	May 94
1. Stimulation of production	66	73	70	81
2. Lower rate of inflation	27	18	23	16
3. Undecided	7	9	7	4

All of the responses to this question are presented in Table 6. Obviously, the directors cannot object to the curbing of inflation, but they certainly cannot condone the high price of this "victory" if it causes the collapse of the Russian economy. Furthermore, the victory over

inflation is not complete yet. In any case, 81 percent of the respondents assigned priority to the stimulation of production in June 1994.

At this time, the enterprise administrators see the resolution of the crisis in the financial sphere and in commodity markets as the main short-term ways of securing the survival of their enterprises (see Table 7).

Table 7. What Is the Main Thing the Enterprise Needs To Do To Adapt to Current Conditions? (in % of number of respondents; choice of no more than three responses)

Possible responses	May 93	Aug 93	Nov 93	Feb 94	May 94
1. Collect money from customers	50	55	58	50	65
2. Find new sales markets	54	49	55	56	56
3. Pay debts to suppliers	33	35	34	38	44
4. Change composition of production output	32	28	32	29	33
5. Pay debts to banks	29	21	24	22	27
6. Reduce personnel staff	8	8	10	7	15
7. Find new suppliers of crude resources, materials, etc.	22	15	15	10	9
8. Make adjustments in enterprise management	10	16	15	4	8
9. Augment production capacities	12	22	14	15	5
10. Carry out privatization	15	7	4	—	—
11. Secure government assistance	—	—	—	14	—
12. Other	4	3	6	10	6
13. No need for change	1	2	1	0	0

During the year of the surveys listed in Table 7, there was an increase in the influence of financial problems—primarily nonpayments by customers and the need to repay debts to suppliers and banks. Although commodity market factors—the search for new customers and changes in the product composition—still had a perceptible impact, they are more likely to reflect the insolvency of potential consumers than the increasing influence of market regulators.

More serious signs of crisis are also confirmed by the increased desire to reduce the number of personnel and by the reduced concern about the augmentation of production capacities.

The negligible influence of the privatization factor and the low percentage of respondents expecting government assistance are also significant.

Not one of the respondents said there was "no need for change" at his enterprise in the first half of 1994.

Limits of Economic Freedom

There are interesting indications of the relative economic freedom of enterprises in Table 8. Unfortunately, they are not always consistent with survey dates.

Table 8. Assessments of Degree of Enterprise Economic Freedom (in % of number of respondents)

Questions and dates of responses	Possible responses			
	Yes, 100%	Yes, in general	Yes, but only on a low percentage of products or investments	Not at all, or hardly at all
Would you say that the enterprise is now:				
1. deciding what and how much to produce by itself?				
—August 1993	54	37	3	6
—November 1993	50	39	8	3
—February 1994	58	35	1	6
—May 1994	58	32	2	8
2. freely setting the prices of its products?				
—August 1993	46	31	8	15
—November 1993	44	34	15	8
—February 1994	45	39	9	7
—May 1994	51	33	4	12
3. deciding the number and composition of the personnel staff by itself?				
—February 1994	71	27	1	1
4. freely setting the wages of its personnel?				
—May 1994	58	32	2	8
5. deciding the purpose and volume of capital investments by itself?				
—September 1993	68	23	5	4
—December 1993	57	28	7	8
—March 1994	67	21	3	9
—June 1994	60	30	2	8

The directors have been quite realistic in their assessments of the limits of their own enterprises' autonomy. The degree of economic freedom is higher in decision-making on investments and the size and composition of the personnel staff (incidentally, this also reflects the general weakness of the labor movement). There is less freedom, however, in decisionmaking on the volume and structure of production output and on prices, including the price of labor—wages.

Non-Acceptance of Government Economic Policy

The dissatisfaction of economic administrators with government economic policy continued to grow in the first half of 1994. This is clear from the responses summarized in Table 9.

The directors' judgments have been quite constant, and this underscores their attitude toward government

policy, and not toward specific members of the government (changes in the composition of the government have had little effect on policy).

The absolute majority of polled directors of Russian enterprises do not understand this policy and do not agree with it. Furthermore, these attitudes grew perceptibly stronger in the first half of 1994.

The absolute majority of directors also said that government economic policy has put their enterprises in a worse position than other Russian enterprises (or at least at a disadvantage in relation to them). Although 4 percent of the respondents in June 1994 did say that their enterprises had benefited (or at least suffered less than others) from government policy, even they did not call this policy correct (no one answered "yes," and only 2 percent answered "usually."

Table 9. Attitudes Toward Government Economic Policy (in % of number of respondents)

Questions and possible responses	May 93	Aug 93	Nov 93	Feb 94	May 94
A. Have you understood the government's economic policy in the last 3-4 months?					
1. Yes	7	8	4	7	3
2. Usually	28	21	19	13	8
3. Undecided	37	21	36	25	20
4. Hardly ever	13	19	22	28	37
5. No	15	32	18	28	32
B. Do you feel that the government's economic policy is correct?					
1. Yes	2	2	1	0	0
2. Usually	26	11	12	6	2
3. Undecided	37	35	42	33	36
4. Hardly ever	17	22	25	28	29
5. No	17	30	19	33	32
C. How has government economic policy affected your enterprise in relation to other Russian enterprises?					
1. My enterprise has suffered more (or has benefited less than others)	46	42	46	58	61
2. My enterprise is "holding its own"	35	46	47	35	35
3. My enterprise has benefited from it (or has suffered less than others)	20	12	8	7	4

Brief Summary

1. The survey results presented in the reports in "The Russian Economic Barometer" in the first half of 1994 indicate not only the continuation of the economic crisis, but also reveal signs of the start of a protracted period of stagnation.
2. The "successes" in curbing inflation have been an extremely dubious "victory," for which an excessive price has been paid in the form of economic ruin, rising unemployment, and declining real income.
3. The stepped-up reduction of capital investments, the impasse in the investment process, and the increase in idle time are signs of the increasing degradation of the production system and the loss of labor skills, which pose the real threat of the loss of receptivity to scientific and technical achievements and the organization of a primitive economic structure during the next period of economic recovery.
4. Anti-market tendencies are growing stronger in the economy, and there has been an increase in physical exchange transactions, directive financial measures, etc.

5. Directors assign priority to the stimulation of production and do not trust the effectiveness of purely monetary levers.

6. The growing unpopularity of government economic policy among administrators is completely obvious.

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Goskomstat on Socio-Economic Status in First Half of 1994

944E1182A Moscow *EKONOMIKA I ZHIZN*
in Russian No 35, August 94 pp 6, 7, 9 (Supplement)

[RF Goskomstat [Russian Federation State Committee on Statistics] report: "Socio-Economic Situation in Russia for January-June 1994" (Published in abbreviated form)]

[Text]

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Macroeconomic indicators

The basic indicators characterizing the results of the first half of 1994 are presented below:

	1st half of 1994	In % of corresponding period for 1993		June 1994 in % of May 1994
		1st half of 1994	June 1994	
Economic indicators				
Gross national product, trillion rubles	245	83		
Volume of industrial production, trillion rubles	120	74.2	72.6	101.7
Production of consumer goods, trillion rubles	34.4	72	71	
Capital investments from all sources of financing, trillion rubles	34.4	72	65	106
Housing placed into operation through all sources of financing, million square meters of living area	10.6	92	90	by 3.3 times
Retail goods turnover - total*), trillion rubles	83	101	96	105
including for enterprises for which official accounting is performed	47	97	92	103
Volume of paid consumer services - total*), trillion rubles	11	53	53	101
including for enterprises for which official accounting is performed	7	49	49	99
Transport (shipping) of cargo by general use transport, million tonnes	1362.5	73	73	103
Export to countries of the far abroad, billion U.S. dollars	21.3	110	115	111
Import from countries of the far abroad, billion U.S. dollars	13.2	104	86	113
Industrial goods producer price index	by 1.9 times**)			108
Social indicators				
Real monetary income on hand		110		
Number of population with income below the subsistence minimum, million persons	21.1***)	53.6	51.0	86.8
in % of total population	14.2			
Average wage, thousand rubles	200***)	by 5.7 times	by 4.2 times	110
Effective consumer price index on goods and services	by 1.8 times**)			105
Total number of unemployed (at end of June), million persons	4.5	115.4		100
including those officially registered with the employment service, thousand persons	1259.6	175.7	103.3	by 3.5 times

Note: Beginning with data for the 1st half of 1994, accounting of import of Russia is performed according to the data of customs statistics.

*) Data on volume of sale of consumer goods and services to the public are presented with consideration for the expert evaluation of sales volumes at unregistered enterprises, and also with consideration for unorganized import and sale of consumer goods performed by private individuals.

***) June 1994 in % of December 1993

***) June 1994.

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Production

1. Production of the GNP [gross national product]

The positive and negative aspects of development of Russia's economy in the first half of 1994 are reflected in the volume, dynamics and structure of the gross national product (GNP).

The production of the gross national product, which characterizes the results of activity of all sectors of the economy, reached 245 trillion rubles (R) in the first half of the current year. The dynamics of its physical volume after the sharp decline at the beginning of the year on the whole for the 6-month period is retained at 83 percent of last year's level.

The most significant changes occurred in the production of the GNP by forms of ownership. In the first half of 1994, the relative share of the value added by non-state enterprises comprised 58 percent of the GNP as compared with 52 percent in 1993. Of this, the relative share of private enterprises increased to 23 percent as compared with 21 percent in the preceding year. This was conditioned by the intensive process of privatization and active growth in the number of commercial structures.

Significant changes occurred in the sectorial structure of the produced GNP.

	1990	1992	1993	1st half of 1994
GNP - total	100	100	100	100
Including:				
production of goods	60.6	58.2	48.8	42.5
production of services	32.5	32.6	42.2	50.5
Net taxes	6.9	9.2	9.0	7.0

In the first half of 1994, the relative share of production of services in the GNP exceeded 50 percent. At the same time, we must keep in mind the fact that in countries with a developed market economy the relative share of services is higher than in the Russian economy. Thus, in Germany this relative share comprises approximately 60-63 percent, in France—57-58 percent, and in Mexico—62 percent.

While at the initial stage of reforms the structural changes were a result of the different rates of decline in the volume of production of goods (work, services) and the varied dynamics of change in prices, today the previously absent sectors of the economy are being filled in, and the tendencies toward decline in some sectors are combined with tendencies toward growth in others. The

volume of consumer services provided to the population has declined by almost two times as compared with the first half of last year, while in the sphere of financial and insurance services, in the middleman structures which provide for bringing products and goods to the consumers, and in sectors engaged in general commercial activity on provision of functioning of the market and real estate operations there has been a steady growth. The relative share of this segment of the economy in the GNP of Russia increased from 13 percent in 1993 to 15 percent in the first half of 1994.

In the structure of utilization of the GNP in actual prices, the relative share of expenditures for final consumption is gradually increasing.

	1992	1993	1st half of 1994
GNP	100	100	100
Expenditures for final national consumption	53.6	57.8	69
Domestic occupations	35.9	40.5	48
state institutions	14.4	15.5	20
non-commercial organizations	3.3	1.8	1
Gross national accumulation	32.0	25.8	24
gross accumulation of fixed capital	20.4	20.5	20
growth of material working capital	11.6	5.3	3
Net (after deducting import) export of goods and services	12.2	12.7	7
Statistical deviation	2.2	3.7	—

The liberalization of prices which began in 1992 already in the first quarter led to a sharp reduction of the solvent demand of the population—by about 3 times as compared with the level for December of 1991. On the whole for 1992, the real monetary income of the population comprised only half of the level for the previous year. At the same time, the behavior of the goods producers which was more inertial than the public demand conditioned a decline in domestic production of consumer goods by 15 percent in 1992.

The elimination of the state monopoly on foreign trade facilitated the rapid penetration of goods which were highly competitive in terms of price and quality onto the domestic market. This circumstance even more greatly expanded the supply of consumer goods on the market.

In 1993 the higher level of inflation in the CIS countries and a definite stability of the Russian ruble led to the fact that the so-called unorganized import of consumer goods from the near abroad was intensified. All these circumstances facilitated the continuing saturation of the domestic consumer market.

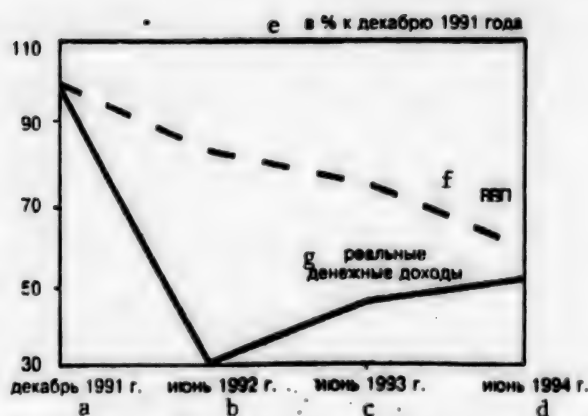
At the same time, the imbalance which had been created between the real solvent demand of the entire population and the supply of goods over a period of 2.5 years is a factor determining the decline in production of consumer goods and the gross national product.

The dynamics of real monetary income and the GNP of the Russian Federation are presented in the following graph.

In 1993 the final consumption of domestic occupations increased by 2 percent as compared with the level for the preceding year. The real monetary income increased by 10 percent during this period. The leading increase in real monetary income of the population as compared with the final expenditures testifies to a process of weakening of inflationary tension which had begun in the economy, and the emergence of stimuli for savings of monetary means. This was facilitated also by the increase in the interest rates on public investments in commercial banks and in the Savings Bank.

In the first half of 1994, the same dynamics of final consumption and real income of the population which had been formed last year were retained. At the same time, the relative share of monetary means directed by the population toward the purchase of currency, securities and other financial assets in the overall volume of its monetary income reached 19.1 percent, while in 1992 savings comprised only 5.3 percent of the monetary income, and in 1993—13.9 percent.

The rather high relative share of savings formulated by the end of the first half of this year is characteristic for the pre-reform period. However, now this phenomenon has a principally different economic content. While in 1991 the high relative share of savings was necessitated and was conditioned by the total deficit on the consumer



Key: a - December 1991; b - June 1992; c - June 1993; d - June 1994; e - in % of December 1991; f - GNP; g - real monetary income.

market and the huge amounts of hidden inflation, today the consumer market is quickly approaching 200 percent saturation, with declining rates of inflation. Thus, the growth of real savings of the population may become a source for investments.

First of all, the public has begun to actively invest funds into housing construction. In 1993 the relative share of these investments in the overall volume of capital investments in the Russian Federation increased by 3.7 times as compared with the level for the preceding year. The introduction of housing at the expense of funds of the population in the first half of this year exceeded by 35 percent the analogous indicator for the first half of 1993.

The relative share of production reserves (raw goods, materials, fuel, etc.) in the gross accumulation is declining. This is caused by the fact that enterprises are using up the material resources acquired in previous years, and are not striving to make large stockpiles for the future. At the same time, the relative share of unsold finished products is increasing. Today these reserves comprise approximately one-third of the total amount of growth in the turnover capital, while in 1993 they comprised 15-16 percent, and in 1992—8 percent. As a rule, this is production intended for final consumption and accumulation, which is not finding a consumer due to high competition on the consumer market and weak investment activity in the economy. For sectors producing intermediate goods, it is not a glut of finished products which is characteristic, but rather a growing indebtedness on the part of the buyers for products which have already been shipped. Enterprises exporting their goods to the countries of the far abroad have found themselves in the most favorable conditions. Their products, which are predominantly of a raw material character, are sold for convertible currency. This allows such enterprises to have sizeable currency accumulations. Altogether on the currency accounts of Russian enterprises, \$6 billion had been accumulated in the first quarter alone, while the remainder of the currency on their reported accounts abroad comprised \$0.4 billion.

At the same time, the amount of currency funds acquired by enterprises and organizations is not declining. In the first quarter of 1994 alone, enterprises acquired \$0.9 billion, for which approximately R1.4 trillion were expended.

The reduction in the share of savings in the GNP is influenced by the diminishing volume of capital investments. Its reduction occurred to a significant degree due to the curtailment of industrial construction. The real, i.e., computed in stable prices, amount of capital investments in the first half of 1994 comprised three-fourths of the amount of the corresponding indicator in the first half of 1993.

2. Industry

In January-June of this year, Russian industry produced R120 trillion worth of products in effective prices, including R22 trillion in June. In June the overall volume of production was 2 percent higher than in May.

A slowing in the rates of decline in industrial production is characteristic for the current situation in the first half of this year. After the significant reduction in the overall product output which took place in January of 1994 as compared with December of 1993, in February the production volume was retained at the January level, in March it surpassed it by 9 percent, and in April—by 2 percent. In May there was a certain decline as compared with January, and in June the volume of product output

once again practically approached the level for the first month of the year. However, the depth of the decline, which was caused by a significant reduction in the volumes of production in the summer of last year (5-12 percent each month as compared with the preceding month) and January of the current year, remains considerable.

In the first half of this year, the production of industrial products comprised 74.2 percent of the level for the corresponding period of 1993, and in June—72.6 percent.

The index of the physical volume of production for 43 highly effective types of industrial products in the first half of this year (as compared with the analogous period last year) comprised 74 percent. In 6 months, the production of rolled sheet stock, steel cold-rolled stripping, rolled stock made of nickel-alloy steel, coated sheet stock and tin, polyethylene, polypropylene, polyvinylchloride, plastic compounds, trucks with diesel engines, splint-slab and hard fiberboard slabs declined by 27-45 percent; of bent steel sections, pipes and thermoplast pipeline sections, metal-cutting machine tools with numerical controls (including processing centers) forge-press machines with numerical controls, cement-splint slabs, UHF [ultra-high frequency] ovens, video recorders, and "Zig-zag" type sewing machines—by 42-67 percent; of metal cord and iron industrial power—by 71-73 percent, and of trucks operating on rarified and compressed gas—by 97 percent.

The volume of products and the structure of industrial production by sectors is characterized by the following data:

	Volume of production in effective prices in 1st half of 1994 (trillion rubles)	Physical volume of production, in % of corresponding period for 1993		Structure of industrial production (in % of total; in 1992 prices)		
		June 1994	1st half of 1994	1990	1st half of 1993	1st half of 1994
Industry as a whole	119.6	72.6	74.2	100	100	100
including:						
mining	17.4	88.6	86.0	15.5	19.6	22.7
processing	102.2	67.3	69.7	84.5	80.4	77.3
By sectors:						
electrical power production	16	87	93	5.0	8.6	9.5
fuel industry	22	88	86	16.0	19.2	21.9
ferrous metallurgy	11	77	76	7.9	8.2	8.0
non-ferrous metallurgy	8	81	87	9.5	6.8	8.8
chemical and petrochemical industry	9	64	65	8.5	8.4	7.8
machine building and metal processing	22	60	58	20.1	20.4	15.4
lumber, wood processing and cellulose-paper industry	5	65	67	4.6	5.0	4.5
building materials industry	4	71	68	3.1	2.3	2.3
light industry	4	44	56	8.4	8.1	7.3
food industry	14	67	76	10.2	8.0	7.4

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For 175 products (43 percent of the overall number held on account for urgent reporting) the average daily production in June was higher than in May of 1994. Among these were: Oil, including gas condensate; coking coal, diesel fuel, finished rolled stock, steel pipes, low-power electric motors, metal-cutting machine tools, casting machines, personal computers, milling equipment, elevators, motor graders, main-line electric locomotives, passenger cars, buses, tractor mowers, individual types of equipment for light industry, plywood laminate, commercial cellulose, cardboard, linen and wool fabrics, cameras, freezers, electric juicers, electric coffee grinders, fatty cheeses and brynza [sheep's milk cheese], butter, bread and bakery goods.

In January-June of 1994, out of 406 of the vital types of products held on urgent accounting, the volume of production as compared with January-June 1993:

—increased on 14 positions (including coking equipment, control-cash register apparatus, fodder crushers, assemblies and machines for preparing dough, ceramic flooring slabs, bedding linens, freezers, mayonnaise, sausage goods, and mineral water), or 3 percent of the overall number;

—declined on 386 positions, or 96 percent of the total number.

The grouping of the 406 most important types of products held on urgent accounting, by amounts of decline (increase) in average daily output in January-June 1994, is presented below:

	As compared with the corresponding period last year		June 1994 as compared with May 1994
	January-June	June	
Decline in production			
under 10%	24	26	78
10-20%	50	34	46
20-30%	49	31	25
over 30%	263	253	61
Increase in production			
100% or more	14	41	175
Not produced	6	21	21

In the industry of the Russian Federation there are enterprises which, adapting to the market conditions, are increasing their volumes of product production, while other enterprises are systematically reducing production of analogous products.

In ferrous metallurgy, the Mikhaylovskiy and Kachkarskiy Ore Enriching Combines increased the mining of

iron ore in the elapsed period of the year by 4 and 9 percent, respectively, while the AO [joint-stock company] "Kuznetskiy Metallurgical Combine" and the Oskolsk Electrometallurgical Combine have exceeded the volumes of production of steel and finished rolled stock by 6-10 percent.

In the chemical and petrochemical industry, the Drogobuzhskiy AOOT [open-type joint-stock company] "Minudobreniya" exceeded the output of synthetic ammonia by 4 percent. The Bereznikovskiy Chemical Plant increased its output of synthetic dyes by 42 percent, the Altay AOOT "Sinteticheskoye volokno" [synthetic fiber] increased production of chemical fibers and filaments by 2.6 times. The collective enterprise "Sterlitamakskiy Petrochemical Plant" exceeded last year's level of production of synthetic rubbers by 3 percent. Joint-stock companies of the open type "Urals Tire Plant" and "Moscow Tire Plant" increased their output of tires for passenger cars by 51 and 8 percent, respectively.

In machine building and metal processing, the Kaluga Turbine Plant increased its output of steam turbines by 1.7 times. The AO "Ulyanovskiy Automobile Plant" increased its output of buses by 1.7 times.

Individual enterprises have significantly increased the output of consumer goods, specifically the AO "Rusich" (Nizhegorodsk Oblast) has increased its output of televisions by 2.4 times; the Vladimir "Shveytmash" Plant—of sewing machines by 12 percent; the AO "Baumanets" (city of Moscow)—of stocking-hosiery goods by more than half; the Yoshkar-Ola and Kansk (Krasnoyarsk Krai) Tricot Factories—of tricot goods by 17 and 18 percent; the Novolokskiy Cotton Combine and the Varentsova Factory—of cotton fabrics by 9 percent and 2.1 times, respectively.

PROLONGED STOPPAGES OF ENTERPRISES AND INDIVIDUAL TYPES OF PRODUCTION.

The main reasons for the stoppages were the difficulties with sale of products (54 percent of all work time losses) and the lack of provision with raw goods, materials, fuel, electrical power, and complement goods (33 percent). Five percent of all the losses of enterprises are associated with the conversion of industrial production. It was primarily for this reason that the enterprises in machine building and metal processing stopped their production.

The losses per worker in industry on the whole for the 6-month period of this year on the average comprised over 8 days, while for all of 1993 this figure was 6 days.

FUEL-ENERGY SECTORS. In January-June of this year, the mining (production) of basic types of fuel-energy resources was characterized by the following data:

	Produced in		January-June 1994 in % of January-June 1993
	January-June	June	
Electrical power, billion kW/hr	447	55.7	93
Oil, including gas condensate, million tonnes	150	25.2	86
Natural gas, billion cubic meters	312	45.4	98
Coal, million tonnes	142	20.3	89
including:			
for coking	28.6	4.6	92

In the first half of this year, the production of primary power resources was 9 percent lower than for the corresponding period last year.

The decline in the extraction of fuel resources was caused primarily by non-payments by consumers for the products supplied to them. The incurred debts as of 1 June of this year in the fuel industry comprised R19.8 trillion, with a credit indebtedness of R22.5 trillion.

In the fuel balance during this period the relative share of gas increased from 47 percent to 50 percent. For oil it comprised 30 percent (in the first half of 1993 it was 33 percent), and for coal it remained practically unchanged and comprised 14 percent.

The output of electrical power by the heat and power plants was 7 percent less as compared with the analogous period for last year, by hydroelectrical plants—by 4 percent, and by atomic power generating plants—by 12 percent.

The extraction of gas condensate for the half-year period was 15 percent less than for the corresponding period in 1993, including in the "Urengoygazprom" association—by 24 percent less.

On the whole, the volume of primary oil processing was less than in January-June of last year by 16 percent, the output of automobile gasoline was 14 percent less, of diesel fuel—16 percent less, and of fuel oil—11 percent less.

The reduction in gas extraction was to a significant degree associated with the reduction of its deliveries to the countries of the near abroad. In the first half of this year, deliveries of gas to Ukraine declined by 6 percent as compared with the same period last year; to Belorussia—by 15 percent, and to Kazakhstan—by 42 percent. In the first half of this year, the extraction of gas at the "Urengoygazprom" association declined by 6 percent, and at "Orenburggazprom"—by 5 percent.

In January-June of this year, the volume of coal mining in the Kuznetsk and Donets Basins was 9 percent less

than in the analogous period of last year, in the Pechora Basin—by 4 percent, and at the "Dalvostokugol" and "Severovostochny" associations and the "Khakasugol" joint-stock company—by one-fourth.

METALLURGY. In ferrous metallurgy in June there was an increase in the average daily production of basic types of products as compared with the preceding month. On the whole for the 6-month period their production was lower than last year's due to the reduction in demand on metal products, especially on the domestic market:

	Produced in: (million tonnes)		January-June 1994 in % of January-June 1993
	January-June	June	
Cast iron	17.7	3.2	82
Steel	23.9	4.2	77
Finished rolled stock	17.4	2.9	77
Steel pipes, thousand tonnes	1707	292	49

The smelting of oxygen-conversion and electric steel comprised 88 and 74 percent of last year's level, respectively. The casting of steel from continuous casting machines was 17 percent less than in the first half of 1993. At the same time, its relative share in the overall volume of steel casting increased to 30 percent as compared with 28 percent in the analogous period last year.

Out of 40 enterprises manufacturing finished rolled stock, 38 reduced their production volumes, and one in three—by more than half. Among them were the joint-stock companies "Lysvenskiy Metallurgical Plant" and "Zlatoustovskiy Metallurgical Plant, the "Nizhne-Serginsk Metallurgical Plant," and "Amurstal."

The production of steel pipes was below last year's level at all 18 enterprises manufacturing them. At the Volgograd and Volga Pipe Plants, the Leningrad Pipe Plant "Trubostal," and a number of other enterprises the volumes of their production did not even reach half of the level for the first half of 1993.

The production volumes of economical types of metal products were significantly lower than last year's: Rolled sheet stock, bent steel sections, coated sheet and tin stock, metal cord, and iron industrial powder.

The non-ferrous metallurgy enterprises increased their mining of bauxites, and their production of copper concentrate, refined copper and zinc in January-June of this year as compared with the corresponding period. However, for a number of vital types of products, due to demand limitations, the production was lower than last year's level:

	June 1994 in % of		January-June 1994 in % of January-June 1993
	May 1994 (by average daily production)	June 1993	
Nickel	106	79	89
Tin, including secondary	65	134	73
Lead, including secondary	42	69	79

Due to shortages in deliveries of ore and concentrates from Central Asia, Ukraine and the Transcaucasus, the existing capacities for production of individual types of products did not operate at full load, specifically for molybdenum (its production comprised 6 percent of last year's level) and porous titanium (46 percent).

The production of primary aluminum declined by 3 percent.

Gold mining declined by 11 percent, including in the primary gold mining regions: Magadan Oblast—by 9 percent, Irkutsk Oblast—by 16 percent, Amur Oblast—by 18 percent, Chita Oblast—by 41 percent, and the Chukotsk Autonomous Okrug—by 72 percent.

There was 28 percent less gold in ingots obtained than in January-June of last year, including 20 percent less from scrap.

MACHINE BUILDING. Under conditions of a decline in investment activity in the economy, the production of basic types of goods in the sector was lower than in 1993:

	Produced in: (in units)		January-June 1994 in % of January-June 1993
	January-June	June	
Large electrical machines	2300	250	46
Metal-cutting machine tools	9800	1385	45
Forge-press machines	1676	236	37
Excavators	3234	323	50
Bulldozers	1110	44	30
Cargo cars	2731	342	40
Passenger railroad cars	378	53	65
Passenger automobiles, thousand units	370	71.4	77
Tractors, thousand units	12.3	1.9	20

Enterprises producing products for the fuel-energy complex reduced by 2-2.6 times the output of steam boilers with productivity of from 0.4 to 10 tonnes of steam/hr as well as hydraulic and gas turbines with productivity of over 10 tonnes of steam/hr.

Due to the lack of funds held by transport enterprises for purchase of new rolling stock the production of electric locomotives and steam locomotives was 10 and 27 percent less than last year's, respectively. The output of switching and industrial wide-gauge steam engines with capacity of 220 hp and above was practically discontinued at the AO "Kalugaputmash" and the AO "Muromteplovoz" (Vladimir Oblast).

The output of high productivity types of equipment in the machine tool building industry declined: Of metal-cutting machine tools with numerical control—by 63 percent, including processing centers—by 44 percent and forge-press machines with numerical controls—by 42 percent.

The reduction in output of finished products in the sector predetermined a decline in the production of complement goods in January-June of this year as compared with the same period last year: For alternating current and low-power electric motors—by 2.6 times, and of diesels and diesel generators—by 3.6 times.

In the automobile industry, due a reduction in orders for the delivery of trucks for the needs of defense and agricultural enterprises, their output on the whole throughout Russia declined by 2.9 times, and in the leading enterprises of the sector—the "ZIL" automotive plant and Nizhegorodsk Automobile Plant—by 3.2-5.0 times. The production of agricultural machine building products has also been reduced: Of tractors, tractor hitches and various types of combines by 2.9-6.7 times.

In the first quarter of 1994, *conversion* encompassed practically all the enterprises of the defense complex, manufacturing military products. The continuing structural changes in the production programs of enterprises have led to a growth in the relative share of civilian production in overall volumes to 70 percent. One in every 8 enterprises manufactured only civilian products. At 40 percent of the enterprises of the complex, the output of civilian products comprised 80 percent or more. Only one-tenth of the enterprises fulfills predominantly military orders.

According to the results of the first quarter, the overall volume of production at converted enterprises comprised 62 percent of the level for the corresponding period last year.

The tendency was retained to lay off persons employed in the production of military products. In the first quarter of this year, conversion enterprises laid off more than 200,000 people, of whom only every second one was placed in other jobs. With reduction in the overall

number of industrial-production personnel by 14 percent, the greatest cutbacks (by 22 percent) were noted at enterprises of the electronics industry.

CHEMICAL AND PETROCHEMICAL INDUSTRY. In the first half of this year, due to the absence of solvent demand of consumers, the production of most basic types of products was lower than in 1993:

	Produced in: (in thousand tonnes)		January-June 1994 in % of January-June 1993
	January-June	June	
Synthetic ammonia	4668	664	84
Sulfuric acid	3171	466	70
Soda ash	732	124	65
Caustic soda	588	95	77
Mineral fertilizers	3935	614	71
Chemical fibers and filaments	101.4	14.3	49
Automobiles, million units	10.4	1.7	53

The production of products used for internal consumption of the sector, calcium carbide, benzene and phenol declined by 32-40 percent; of synthetic rubber, plasticizers and acetic acid—by 44-56 percent, and of sulfuric flotation pyrite—by two-thirds.

The output of products having stable demand on the foreign market declined to a lesser degree, specifically nitrogen and potassium fertilizers (by 19-27 percent). At practically all enterprises, with the exception of the Perm AO "Mineral Fertilizers," the production of mineral fertilizers was less than it was in 1993. Moreover, at every third one by more than half. Among them was the AOOT "Balakovskiy Chemical Plant," the Rossoshanskii AOOT "Minudobreniya," and the Chornorechenskii GP [state enterprise] "Korund."

LUMBER, WOOD PROCESSING AND CELLULOSE-PAPER INDUSTRY. In June of this year as compared with the previous month there was an increase in the average daily output of a number of vital types of products. At the same time, under conditions of significant (by one-third) reduction in the production of commercial timber along the entire technological chain, the production of products for further processing in the first half of this year was on the whole lower than last year's level:

	Produced in		January-June 1994 in % of January-June 1993
	January-June	June	
Plywood laminate, thousand cubic meters	423	71.9	79
Prefabricated wooden houses, thousand square meters of living space	282	42.3	30
Wood cross ties for wide-gauge railroads, thousand units	6805	923	92
Wood beams for wide-gauge railroad switches, sets	2735	404	71
Commercial cellulose, thousand tonnes	585	106	67
Cardboard, thousand tonnes	568	97.1	65

Since the beginning of the year, enterprises in the sector have increased the production of newsprint by 35 percent, which is primarily associated with the expansion of its export (in January-May it increased by 2 times). However, the output of paper on the whole for the elapsed period of the year declined by one-fourth, including typographic—by 24 percent, writing and notebook paper—by 50 percent, and packaging cardboard—by 32 percent.

BUILDING MATERIALS INDUSTRY. In January-June of this year, under conditions of a continuing reduction in the volumes of construction work, the

production of practically all basic types of products in the sector was less than last year, especially for products used in production-technical and large-panel house building. In almost all the regions of the country, the output of such products was less than last year's level. The production of prefabricated reinforced concrete, including panels and other structures for large-panel house building, comprised 63-68 percent of the level for January-June 1993, and of lightweight metallic structures, steel masonry and roofing materials—by 31-38 percent. The production of basic types of products in the sector is characterized by the following data:

	Produced in:		January-June 1994 in % of January-June 1993
	January-June	June	
Cement, million tonnes	16.7	3.2	70
Prefabricated reinforced concrete structures and products, million cubic meters	12.0	1.9	67
Soft roofing material and isol, million square meters	209	44.4	67
Building brick, billion units standard brick	6.3	1.1	73
Roofing slate, million standard slabs	623	120	34
Linoleum, million square meters	31.8	4.8	66

On the whole for the period since the start of the year, the reduction as compared with last year's level comprised: For the output of masonry materials and porous fillers—30-40 percent; commercial asbestos, window glass, roofing slate, and mineral wool—40-64 percent. The production of home improvement goods—heating radiators and convection heaters, gas stoves, bathtubs, sinks and wash basins, and sanitary ceramic goods decreased by 35-55 percent.

THE OUTPUT OF CONSUMER GOODS in January-June of this year comprised 72 percent of the level for the corresponding period of last year, including food products—81 percent, and non-food items for which the solvent public demand was significantly lower—66 percent.

LIGHT INDUSTRY. The production of basic types of products in light industry is characterized by the following data:

	Produced in:		January-June 1994 in % of January-June 1993
	January-June	June	
Fabrics - total, million square meters	1272	152	67
Including:			
cotton	932	110	85
woolen	50.5	6.1	42
silk	135	17.2	39
linen and hemp-jute	87.5	11.0	50
Stocking-hosiery goods, million pairs	188	27.2	68
Tricot goods, million pieces	109	12.4	65
Shoes, million pairs	36.5	6.1	46
Bedding linen, million pieces	19.8	1.9	102

Due to the limited consumer demand in the first half of this year, the production of staple thread, coats, half-coats and raincoats comprise approximately one-third

of last year's level, and of woolen thread, natural and artificial leather goods—less than half.

MAJOR HOUSEHOLD APPLIANCES. In January-June of this year as compared with last year's level, there was an increase in the output of freezers (by 9 percent) and of two- and three-compartment refrigerators (by 16 percent). For most of the basic consumer durables, many of which do not withstand competition from imported analogs, the production was less than in 1993.

	Produced in: (thousand units)		January-June 1994 in % of January-June 1993
	January-June	June	
Televisions	1317	150	64
Radio receiver apparatus	600	44.9	37
Electric vacuum cleaners	856	94.8	39
Washing machines	1140	153	52
Refrigerators and freezers	1410	218	82

The production of sewing machines comprised slightly over one-fourth of last year's level, of tape recorders—almost one-third, and of electric irons, cameras, bicycles and electric teapots—38-42 percent.

THE FOOD INDUSTRY. Under conditions of the continued tendency toward saturation of the market with many types of food products, their output was less than in 1993:

	Produced in: (thousand tonnes)		January-June 1994 in % of January-June 1993
	January-June	June	
Meat, including category I by-products	1163	185	77
Sausage goods	715	127	101

Whole milk products recomputed to milk	3302	576	82
Vegetable oil	433	36.1	71
Flour	6031	898	85
Groats	577	81.6	71
Bread and bakery goods	5764	973	84

Among baby food products in January-June of this year, the production of meat and fruit-vegetable canned goods comprised 27 and 33 percent of the corresponding period for last year, respectively.

The production of vodka and liquor-vodka goods comprised 61 percent of last year's level.

3. Sale of products of production-technical application

THE MARKET IN NATURAL TYPES OF FUEL. In the first half of this year, *the resources of basic natural types of fuel* comprised around 800 million tonnes of standard fuel (8 percent than last year's level). Within their structure, oil accounts for 34 percent, gas for 49 percent, and coal—for 17 percent. The physical volumes of the fuel resources are characterized by the following data:

	January-June 1994	In % of January-June 1993
Oil, million tonnes	185	87
Natural gas, billion cubic meters	332	98
Coal, million tonnes	205	89

The market in natural types of fuel is 93.8-99.6 percent formulated from domestic production. Import from the

CIS states in general resources comprised 0.4-6.2 percent, and declined by 0.6-1 percentage points as compared with last year's level. The relative share of reserves held by suppliers and consumers increased for oil by 1.8 percentage points, for gas—0.6, and for coal—0.5.

The structure of formulating and utilizing fuel resources in the first half of this year is presented below:

	January-June 1994 (in % of total)		
	oil	gas	coal
Resources - total	100	100	100
Including:			
Drilling	81.1	94.0	69.1
Import from CIS states	2.0	0.4	6.2
Reserves on hand with suppliers and consumers on 1 January 1994	16.9	5.6	24.7
Utilization - total	100	100	100
Including:			
Sale on domestic market	50.6	65.7	59.2
Export - total	29.2	28.3	4.3
Of this:			
To the CIS countries	7.8	11.7	1.2
Reserves on hand with suppliers and consumers on 1 July 1994	17.3	5.4	23.3

Industrial and sales organizations sent 50.6 percent of the total reserves of oil, 65.7 percent of gas and 59.2 percent of coal *to the domestic Russian market*. The volumes of fuel sold changed as follows:

	1st half of 1994		1st quarter of 1994 in % of 1st quarter of 1993	2nd quarter of 1994 in % of 2nd quarter of 1993
	sold	In % of 1st half of 1993		
Oil (for refining), million tonnes	93.8	84	83	86
Gas (for production-operation needs), billion cubic meters	188.4	93	97	88
Coal, million tonnes	121.5	93	99	88

The decline in the sale of fuel to consumers of Russia in the first half of this year as compared with last year's level was predetermined by an increase in the cost of power resources, the increase in rates for their transport and shipment, as well as the insolvency of the enterprises.

Over one-third of the refined oil was used for manufacturing such light petroleum products as automobile gasoline and diesel fuel. In the first half of this year, their sale on the domestic market by oil refining and sales enterprises declined as compared with last year's period

respectively by 17 and 25 percent. During the indicated period, the sale of automobile gasoline to consumers of Russia through wholesale middlemen comprised 8.3 million tonnes, and declined as compared with the analogous period last year by 23 percent, of diesel fuel—by 7.7 million tonnes and by 44 percent, respectively. At the same time, the sale of diesel fuel through direct ties increased by 11 percent.

In order to cover the non-uniformity in consumption of gas and a possible shortage of fuel during the winter

period, gas is being pumped into underground storage

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facilities. In the first half of this year, 18 billion cubic meters of gas were pumped into such facilities (1 percent more than last year's level), including 7.8 billion cubic meters (5 percent more) in June.

In the overall volume of fuel sold to Russian consumers during the 6-month period as compared with last year's level, the relative share of gas increased by 1.2 percentage points and comprised 46.7 percent, of coal—by 0.7 percentage points and 30.1 percent, respectively. The relative share of oil declined by 1.9 percentage points and was equal to 23.2 percent.

Three-fourths of the coal directed to the domestic market by drilling and sales enterprises came from the following basins and deposits:

	Sold in the 1st half of 1994 (million tonnes)	In % of the 1st half of 1993
Kuznets	42.8	99.3
Borodinskiy	11.8	90
Kansko-Achinskiy	8.3	106
Donets	6.6	90
Primorskiy	5.3	81
Vorkuta	4.6	87
Azeyskiy	3.7	64
Neryungrinskiy	3.6	109
Intinskiy	3.3	92

During the six months of this year, power supply enterprises produced 360 billion kW/hr of electrical power for the domestic market (10 percent less than the corresponding period last year).

DELOVOY MIR Economic Statistics, 23 August

944E1173A Moscow DELOVOY MIR in Russian
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[Economic overview based on Russian Federation State Committee for Statistics information: "Production and Price Dynamics as of 23 August"]

[Text]

Prices of Consumer Goods and Services

In the period between 17 August and 23 August the index of consumer goods and services was 101.0%, including 100.7% for food products, 101.0% for non-food items, and 102.4% for paid services.

The largest weekly increase in consumer prices was reported in cities in the West Siberian and Far Eastern regions (1.6-1.7%), and the smallest in the Volga Region (0.3%).

Prices indexes for goods and services on the consumer market were:

	(as % of preceding date)			Average Daily Price Increase	
	9 August	16 August	23 August	August	July
Consumer Goods and Services	100.7	100.7	101.0	0.14	0.17
Including:					
Food Items	100.0	100.0	100.7	0.00	0.11
Non-Food Items	101.3	101.3	101.0	0.18	0.13
Paid Services	101.7	102.1	102.4	0.47	0.45

Since the beginning of the month prices for goods and services throughout Russia have increased by 3.1%, with virtually no change in the price of food items, an increase of 4.2% in the price of non-food items, and 11.3% in the cost of paid services.

If the current rate of price change for goods and services continues, the overall operative price index for August will be 104-105%.

Since the beginning of the year food prices have increased by a factor of 1.7, non-food items by a factor of 1.8, and services by a factor of 4.9.

Food

During the period of 17-23 August prices in the organized trading system rose by 1.1% and decreased by 2.7% in unorganized trading.

Price changes for the week for the main product groups were as follows:

	(in percent)		
	Total	Including:	
		Organized Trade	Unorganized Trade
All Food Items	100.7	101.0	97.3
Including:			
Meat and meat products	101.5	101.5	101.4
Fish and fish products	100.5	100.6	99.5
Edible fats	101.0	101.0	102.1

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Milk and dairy products	100.6	100.7	100.1
Eggs	101.2	101.2	101.4
Bread and other baked goods	101.8	101.8	102.1
Cereals and pasta	102.0	102.0	101.0
Fruits and vegetables, including potatoes	94.7	95.0	94.3

Price increases for fish, milk and dairy products and cheeses did not exceed one percent. Wheat bread made from Grade 1 and 2 flours, pasta, tea and vodka increased in price by 2-3%, while the prices of vegetable oil, flour, sugar and salt were up by 4.9-5.7%. There were increases of 20-40% in the price of vegetable oil in Petrozavodsk, Arkhangelsk and Krasnodar, in the price of sugar in Ivanovo, Moscow and Moscow Oblast, and in the price of salt in Tyumen and Stavropol. Prices for potatoes, cabbage, carrots and apples decreased by 5-8%.

Price change for food items for August overall will not exceed 1-2%, the result of a substantial seasonal drop in the price of vegetables and fruits (by 20-40%). The largest price increase will be for products such as sugar and salt (16-18%), as well as bread, other baked goods and flour (12-13%). There will be virtually no change in the price of meat, dairy and fish products during the month.

Since the beginning of the year the price of bread, other baked goods, milk and dairy products have risen by factors of 2.2-2.7, while meat and meat products have increased in price by a factor of 1.8.

Unorganized trade, like organized trade, continues to show a decline in the price of plant products: over the one-week period potatoes, cabbage, garlic, carrots, beets and apples decreased in price by 4-10%. Price increases for meat and milk remain at a relatively low level.

The cost of an assortment of 19 basic food items decreased over the week by 1.2% due to the significant seasonal drop in prices for fruits and vegetables, which comprise a large portion of that assortment, and as of 23 August stood at R62,400 [rubles] per month. The price differential for this selection in the Russian cities monitored was by a factor of 4.8. The lowest cost for the assortment was reported in Ulyanovsk (R37,300) and the highest in Magadan (R178,600). In Moscow and St.

Petersburg the assortment cost R70,400 and R65,900 per month, respectively (31st and 38th place in the list of cities reporting).

Non-Food Items

During the period of 17-23 August, as in previous weeks, an insignificant rate of price increase for non-food items continued to be reported. There were increases of 2-4% in the price of tobacco products, wallpaper, some types of medicine, dishes and children's items.

Paid Services

Over the past week prices and rates for paid services to the public increased by 2.4%. The greatest increase was in the cost of rent and hot water supply (by 30.8 and 6.1%, respectively). Increases in the cost of these services by multiple factors were reported in cities in Moscow Oblast and in Novosibirsk, Khabarovsk, Komsomolsk-na-Amure and Petropavlovsk-Kamchatskiy.

Rates for some types of consumer services and health care rose over the week by 1-3%, with the price of transportation services, preschool fees and therapeutic and recreational resort stays remaining unchanged.

Since the beginning of the year rent in Russian cities has become more expensive by a factor of 17, and rates for hot water supply are up by a factor of 12. City bus fare has increased by a factor of six, and the price of consumer services by a factor of 2.0-4.5.

Harvesting and Grain Procurement

As of 22 August 1994 the harvest of winter grains in Russia's southern regions was virtually complete. Large-scale grain crop harvests are underway in a number of areas of the Non-Chernozem zone, the Urals and Western Siberia. Over the past week grain crops were mown over an area of 3.6 million hectares, as opposed to 3.8 million hectares the previous week.

Throughout the Russian Federation one-third (34%) of grain crops have been mown, and 28 percent have been threshed.

A total of 30 million metric tons of grain has been obtained after threshing, an average of 21.7 hundred-weights per hectares (in 1993 these figures as of the same date were 53.6 million metric tons and 23.4 hundred-weights).

The status of the harvest in Russia as of 22 August is illustrated by the following figures:

	1990	1991	1992	1993	1994	One-Week Increase	
						Reporting Week	Previous Week
Grain crops harvested (not including corn), millions of hectares	27.7	36.0	31.2	26.0	16.8	3.6	3.8
(As percentage of sown area)	45	60	54	49			
Threshed, millions of hectares	23.9	33.9	29.2	29.2	13.8		
(As percentage of sown area)	39	57	51	43	28	3.0	3.0
(As percentage of mown area)	86	94	94	88	82		
Grain obtained after threshing (original debited weight), total, millions of metric tons	64.9	63.2	64.3	53.6	30.0	5.6	6.1
(Hundredweights per hectare)	27.1	18.6	22.0	23.4	21.7		

Grain collection centers have received 5.1 million metric tons of grain, or 17% of the amount harvested thus far. Federal and regional storage facilities have purchased 1.5 million metric tons of grain, and 3.6 million metric tons of grain have been accepted from farms for storage.

A total of 2.1 million hectares of winter crops have been planted for harvest next year and 2.6 million hectares of land plowed for spring planting, as compared to last year's figures of 3.2 million and 3.5 million, respectively.

Fodder Procurement

As of 22 August 1994 agricultural enterprises in the Russian Federation had stockpiled 24.1 million metric tons of crude and moist fodder. Calculated per standard head of livestock this is equivalent to 7.9 hundredweights of feed units, as compared to 8.7 hundredweights of feed units in 1993.

Over the past two weeks the feed procured has consisted primarily of silage and haylage.

	1993	1994	1994 Compared to 1993		Two-Week Increase	
			+, -	in percent	Reporting Week	Previous Week
Planted and natural grasses mown, total, millions of hectares	25.1	22.4	-2.7	89	3.7	5.7
Procured, millions of metric tons:						
Hay	23.2	19.2	-4.0	83	3.3	6.2
Haylage	41.3	34.7	-6.6	84	7.4	10.6
Straw	7.2	4.1	-3.1	56	2.5	1.0
Silage	24.7	18.8	-5.4	78	9.1	5.9
Grass meal production, thousands of metric tons	634	397	-237	63	62	84
Total feed procured, millions of metric tons of feed units	29.9	24.1	-5.8	81	6.0	7.4
Per standard head of livestock, in hundredweights of feed units	8.7	7.9	-0.8	91	2.0	2.4

Last year's level of crude and moist fodder storage has been exceeded in 31 of Russia's regions. An average of 11-14 hundredweights of feed units per standard head of livestock has been procured by agricultural enterprises in Novgorod, Ivanovo, Kaluga, Moscow, Orel, Smolensk, Tver and Lipetsk oblasts and in the Republic of Chuvashia, and a level of 17.4 hundredweights of feed units was achieved by farms in the Republic of Tatarstan.

Less than five hundredweights of feed units per standard head have been procured in Astrakhan, Kurgan, Omsk, Tyumen and Chita oblasts, the Republic of Kalmykia and Khabarovsk Kray.

Farms in the Russian Federation have set aside 2.5 million metric tons of fodder grain (8% of total threshed volume) from this year's harvest for use as livestock feed.

Consumer Service Volume

During the first half of this year the volume of services of a consumer nature was, according to officially reporting enterprises, R1.1 trillion, which in actual prices was six times higher than one year ago, but in comparable prices represented a decline of 48%. Of the total volume of consumer services provided to the public, 10% are provided in rural areas (in 1993—11%).

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The breakdown of consumer services by type of ownership during the first half of 1994 is illustrated by the following figures:

	(As a percentage of consumer service volume, by type)	
	Form of Ownership	
	State	Non-State
Total consumer service volume	48.2	51.8
Including:		
Shoe repair and custom shoemaking	41.8	58.2
Clothing repair and custom tailoring	40.3	59.7
Custom sewing and knitting	35.3	64.7
Repair of electronic equipment and household appliances	41.0	59.0
Vehicle repair and servicing	24.2	75.8
Furniture repair and manufacture	34.7	65.3
Dry cleaning and dyeing	49.1	50.9
Laundry services	71.1	28.9
Housing repairs and construction	41.3	58.7
Photographic services	37.2	62.8
Bathhouse and shower services	76.1	23.9
Hair salon services	31.3	68.7
Rental services	60.7	39.3
Transportation and delivery services	56.0	44.0
Ceremonial services	77.9	22.1

Industry

During the first 21 days of August for the 163 types of product for which immediate reporting is done average daily production volume in comparison to the same period in July 1994:

—increased for 89 products (including: electric power, coal, diesel fuel, steel, finished rolled stock, steel pipe, large electric machinery, special, specialized and universal machine tools, metal cutting equipment with numerical control, woodworking equipment, batteries, including lead automobile batteries, main line electric and diesel locomotives, trucks, excavating equipment, tractors, tractor attachments, grain harvesting combines, synthetic ammonia, combined

feeds, matches, paper, cement, asbestos, hard wood-fiber board, soft roofing materials and insulation, washing machines, tape recorders, electric irons, home knitting machines and hand-held appliances, household sewing machines, bicycles, linen and wool yarn, fabrics, knit goods, footwear, edible fish products, meats, canned meats, cereals, flour, bread and other baked goods, granulated sugar made from imported raw materials, baker's yeast, confectionery items, tea, toothpaste, laundry soap and bath soap), or 55% of the total number of items;

—decreased for 68 products, or 41% of the total number of items;

in comparison to the same period in August 1993:

—increased for 22 products (including: diesel engines and diesel generators, freight rail cars, buses, trailers and half-trailers for trucks, front-wheel drive passenger cars, caustic soda, potassium fertilizers, asbestos cement pipe and joints, video cassettes, mineral water, confectionery items and table salt), or 13% of the total number of items;

—decreased for 135 products, or 83% of the total number of items.

Considering the dynamics of change in output of the most important types of products, average daily industrial output during the period of August 1994 just completed is estimated at 102% of the level for the same period in July of the current year and 81% of the level for the corresponding period in August of last year.

The breakdown of product types by amount of decrease (or increase) in average daily output is illustrated by the following:

	Compared to the corresponding period:	
	in August 1993	in July 1994
Lower output	135	68
Including:		
less than 10 percent	9	36
between 10 and 20 percent	24	12
between 20 and 30 percent	21	6
more than 30 percent	81	13
Higher output (100 percent or more)	22	89
Not manufactured	6	6

Production of the most important types of industrial goods during the first 21 days of August 1994 is illustrated by the following figures:

	Produced during first 21 days of August 1994	As a percentage of the corresponding period (average daily output):	
		in August 1993	in July 1994
Electric power produced by public electric power stations, billions of kilowatt-hours	36.7	90	102
Petroleum, including gas condensate, millions of metric tons	16.2	88	96
Natural gas, billions of cubic meters	29.7	94	97
Coal, millions of metric tons	12.7	96	108
Steel, millions of metric tons	2.8	88	102
Finished rolled stock, including semiproducts for export, millions of metric tons	2.1	91	104
Steel pipe, thousands of metric tons	196	74	104
Large electric equipment, units	131	62	136
Metal cutting equipment, units	109	29	95
Passenger cars, thousands of units	47.6	82	93
Tractors, units	970	26	106
Synthetic fibers and thread, thousands of metric tons	7.6	53	94
Chemical fertilizers (calculated at 100% nutrient value)	338	99.0	93
Tires for agricultural equipment, motorcycles and mopeds, thousands of units	894	46	96
Commercial wood products, millions of cubic meters	1.8	57	107
Lumber, thousand of cubic meters	427	59	100.4
Paper, thousands of metric tons	128	79	108
Cement, millions of metric tons	2.5	81	103

	Produced during first 21 days of August	As a percentage of the corresponding period (average daily output):	
		in August 1993	in July 1994
Slate, millions of standard tiles	86.1	50	99.8
Building brick, millions of standard brick	443	75	95
Soft roofing and insulation, millions of square meters	33.6	93	108
Fabrics, total, millions of square meters	63.8	39	133
Hosiery, millions of pair	12.8	50	88
Knitted goods, millions of pieces	5.3	44	125
Footwear, millions of pairs	2.2	40	105
Televisions, thousands of units	55.6	33	69
Radios, thousands of units	12.3	17	61
Refrigerators and freezers, thousands of units	127	71	100.8
Electric vacuum cleaners, thousands of units	36.8	35	91
Washing machines, thousands of units	77.3	46	104
Meat, including Category 1 by-products, thousands of metric tons	92.0	78	115
Whole milk products, calculated by milk volume, thousands of metric tons	359	86	99.0
Butter, thousands of metric tons	35.1	63	86
Granulated sugar made from imported raw materials, thousands of metric tons	70.7	by a factor of 2.6	by a factor of 1.9

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During the preceding period of August 1994 the items reported in weekly reports that were not manufactured were: forging and stamping machines with numerical control, bulldozers, motor graders, passenger rail cars, streetcars and magnetic tape.

Highway Maintenance and Repair

During the first half of this year a total of 8,800 kilometers of hard-surface public roads were repaired, or 1% more than during the same period in 1993. The amount of federal road repair increased by 6%, while regional (republic, kray, oblast and autonomous territory) road repair remained at virtually the same level as during the first half of last year.

	First Half 1994 (1,000's of km.)	As Percentage of First Half 1993
Total length of repaired hard-surface public roads	8.8	101
Including:		
Federal	1.5	106
of which, roads with surface upgrade	1.32	99
Republic, kray, oblast and auton- omous territory	7.31	100.2
of which, roads with surface upgrade	4.7	105

In addition, a total of 8,100 meters of permanent bridges were repaired, or almost 1.5 times as much as during the first half of last year.

During the first half of this year repairs on roads and road-related facilities cost R1.2304 trillion, of which R986.4 billion (80%) went for the repair and maintenance of roads under republic, kray, oblast or autonomous territory jurisdiction, and R244.0 billion (20%) were spent to repair the existing federal road network.

The amount of repair work done increased in 39 of Russia's regions. The greatest increase was reported in Moscow Oblast (by a factor of 3.6), Krasnodar Kray (factor of 2.6), Nizhegorod Oblast (factor of 2.0), Tyumen and Novosibirsk oblasts (factor of 1.9) and Kurgan Oblast, Tuva and Adygeya (factor of 1.6).

However, in 36 regions this figure declined during the reporting period. Less than 50% the amount of repair work done during the first half of last year was done on roads in Mordovia, North Ossetia, Udmurtia, Krasnoyarsk Kray and Bryansk, Kaliningrad, Novgorod and Belgorod oblasts; repair work was down to 70-80% of last year's first-half level in Kalmykia, Altay Kray and Vladimir, Kirov and Sverdlovsk oblasts.

Serial Production of New Types of Machinery, Equipment, Devices and Instruments

In 1993 the republic's enterprises started up serial production of 1,382 new types of machinery, equipment, devices and instruments, which was substantially fewer than in previous years:

	1990	1991	1992	1993
New types of pro- duction started up	2,404	2,103	1,623	1,382
Including:				
Machinery, equip- ment and devices	2,040	1,806	1,351	1,200
Instruments, auto- mation equipment and computer equipment	364	297	272	182

The overwhelming majority of these products were put in production at the initiative of enterprises (885), and as part of targeted programs: federal (73), interstate (10), regional (16), state scientific-technical (45), innovation (18), conversion (172), priority scientific research and development (76), international (3), industry and inter-industry (61).

The largest number of new types of production were electric equipment and electric machinery (203), machinery and equipment for cultural and consumer use (171), communications equipment (94), and chemical, oxygen and compressor equipment (77). Of all the new types of equipment manufactured, 976 are being manufactured in this country for the first time and differ substantially from equipment previously manufactured in terms of their technical and economic parameters, and there are 239 that have been modernized and 167 modified. There were 723 types of product manufactured under license, of which 157 are inventions and 36 are know-how. In 1993 enterprises produced 802 types of machinery, equipment, devices and instruments which received certification for complying with standards and other normative documents. The proportion of products manufactured for the first time has declined over the past three years from 19.3% to 11.3%. The percentage of certified products is 23.1%. The percentage of exported products is 9.8%, of which approximately 73% are sold for convertible currency.

The rate of serial production start-up for the majority of types of machine building products remains low and, moreover, for some types of metal cutting equipment, computer equipment and measuring instruments there has been a marked drop in production volume or a complete halt to production. The percentage of products, manufacture of which started in 1993, was 3.4% of the total volume of machine building products (this figure was 7.2% in 1992).

Over the past year the republic's industry has removed 292 types of product from production, including 71 which were replaced by new models and 221 for which there was no demand.

POLITICAL AFFAIRS

West Seen To Be Behind Movement To Close Chernobyl AES

94WP0143A Kiev BIZNES in Russian No 30, 2 Aug 94
pp 1, 3

[Article by Lyudmila Pekar: "Whom Does It Pay To 'Ill-Treat' Nuclear Energy if This Is Profitable for Anyone"]

[Text] In mid-May, Greenpeace sent Ukraine's president 250,000 letters collected in various countries protesting against the operation of the Chernobyl AES [Nuclear Power Station]—and, in general, against nuclear energy in Ukraine. Ex-President Leonid Kravchuk's actual reply was his well-known trip to Chernobyl and Slavutich, where he promised nuclear scientists that the Chernobyl AES would operate for a long time and would also be replaced by a more modern nuclear power station. Considering the new president's qualifications in technical sciences, one cannot doubt that he will support his predecessor.

However, let us assume that the optimistic news about new deposits are justified and that "worthless" combustible gases will find a use. Let us assume that oil purchased cheaper than world prices will cease to cost threefold more after refining in our plants. In short, will we have as much cheap gas as we want—will we manage without a nuclear power station and is it worthwhile to do without one?

...In 1979 during the usual "turn out unnecessary lights" campaign I invited Vitaliy Sklyarov, who was only a deputy minister at the time, to participate in a television show on saving energy. In place of a reply, he advised me to attend a selective meeting that the Ministry of Power and Electrification held every morning. Only the directors of steam power plants and hydroelectric stations attended—they managed nuclear ones from Moscow and they did not talk about them.

That morning, which did not differ from any other, they reported on several accidents. An engineer was crippled at the Kharkovskaya TES [Thermal Electric Power Station]; at another station an accident had occurred because a stool fell into a water intake. The Zaporozhskaya's director asked permission to begin scheduled repairs ahead of time—large damages could occur because of the overload caused by repairing its other units.

Those who consider atomic stations dangerous should attend such a meeting. The situation has not improved since then: Here and there in our country turbines installed in 1905 are operating....

Many charges are now being leveled against ex-Minister Sklyarov. As a specialist, however, he should level the main charge against himself. He well knew that our new steam power plants would not appear for at least the next

16 years: It takes eight years to design a station and just as many to build one. There were no physical possibilities to sustain the "thermal pause" proposed by him in our depreciated—often by 90 percent—"traditional power industry." The minister was confirming the populist demand, understanding that it was the road to nowhere. There were also no attempts to replace equipment or perform scientific studies for building the new TES which would begin operating after 16 years.

The damage from TES operating on coal is not confined to the abundance of carbon dioxide and carbon monoxide in the atmosphere or even to sulfuric acid rain (if there were no nuclear power stations, the forests in Central Europe would have perished long ago from acid rain). The radiation background around them is higher than around nuclear stations. Coal always has impurities, including radioactive ones. Because a great deal of it is burned, we breathe them in. It is contemplated that 22 billion Deutsche marks will be spent during the next four years to put the former GDR's thermal stations into fair shape. We are spending nothing on filters, but these emissions do not disturb the "greens" for some reason. Whereas the European Community is still, for its own interests, throwing a kind of bone to withdrawing the Chernobyl AES from operation, no one ever gives our TES anything.

The hydroelectric power stations, which were glorified so many times in socialist realism's artistic literature, and everything pertaining to "nontraditional sources" are barely making a 4 percent contribution to today's power generation. The damage from them is stretched out in time and is imperceptible at first glance. However, it is already calculated: the flooding of valuable land and population centers, the disappearance of valuable types of fish, and much more.

There is another aspect. Insurance fees are still not included in our cost for energy obtained using coal. An item of expenditure like the cost of re-cultivating the area of worked-out mines or social security for miners exists in the West. We have narrow layers and, other things being equal, 10 times as many of our miners lose their lives than in America or England. A total of 435 perish and 10 times as many are crippled per 135 million tonnes of coal. Thus, it would be no exaggeration to say that our coal is the same as Chernobyl—only stretched out in time.

The idea of alternative sources, in particular, solar energy, which is really clean, is extremely attractive; however, can it replace nuclear power stations? Twenty years ago in Japan, which, as is known, has no natural resources, they began to work on a project called "Solar House." However, neither this project nor others solved the large industrial country's problem. In Japan 45 nuclear power station units solved the problem (Ukraine has only 14 on a land mass that is three times as large). A question arose recently: What should be done with the Japanese nuclear power station built in 1963? In accordance with instructions—close it. However, they partly

repaired it and are continuing to operate it. The first Chernobyl AES unit was launched 15 years after the Japanese one. For all our lagging behind in automation, this is a big advantage. Properly speaking, each nuclear power station ceases to correspond to international safety requirements at some time since the requirements are toughened every three years.

A general criteria for society's economic condition exists. This is the power available to the population and the state. This year Ukraine will produce less than 5,000 kilowatts per capita. In America this figure is 12,000; in Sweden—20,000.

The attitude toward nuclear energy, like it or not, is changing. Already they are not talking about it on the radio with the same scornful tone. Already not all troubles are flocking to Chernobyl—although there is still no honest discussion on how profitable it is to "use" the zone. Already political decisions in favor of it are being made.

Without economic reinforcement, however, political decisions help little. After the cancellation of the moratorium and the extension of the Chernobyl AES's operation, Nikolay Sorokin, the former Chernobyl AES director, told the "greens:" "It is not necessary to fight against nuclear energy—it is on the point of perishing itself." Indeed, our stores of nuclear fuel are empty. Because of this, the first unit of the Yuzhno-Ukrainskaya station has stood idle already for almost two months. During the first half of the year the Yuzhno-Ukrainskaya station worked 1,000 hours more and produced 10 percent less because there were no stocks to operate at the required capacity level. A unit at the Zaporozhskaya AES will come to a halt on 15 August. Consumers in Ukraine are paying threefold less for "nuclear" electrical energy than is necessary for the normal existence of the branch—the establishment of depositories for expended fuel, etc. The Ministry of Energy was 370 billion in debt. "Westerners" are not coming with their capital to establish joint enterprises because they see that nuclear power stations in Ukraine are operating at a loss. Capitalists do not like to work at a loss.

Whom does it pay to keep such a necessary, as world experience shows, field in a dying condition? Whom does it pay to frighten the world with an "explosion according to the 1986 scenario," knowing that such an explosion is impossible? Why are all horrors plastering down on all our operating RBMK when reactors of this type in Russia are providing 46 percent of all its electrical energy and no one calls to mind that the many units of the Kurskaya and Smolenskaya are also located in the Dnieper basin?

I posed the last question to Mareno, the director of the European Community's mission to Ukraine, on a tender regarding the plans for a new "sarcophagus." He avoided answering.

Meanwhile, an answer exists. Practically all specialists in nuclear energy know it.

Every type of "Soviet" reactor has an industrial, that is, military, analog. In this capacity, the RBMK served the Soviet Union faithfully and accident-free. It is impossible to verify whether an atomic weapon is being prepared at this time in this type of reactor although an International Atomic Energy Agency [IAEA] mission is constantly at the station. We, of course, are not preparing one but they do not believe us. In this sense, a blank number lies heavily on Russia: It has too many opportunities which one cannot keep an eye on and they do not put pressure on it. Ukraine is the object of this pressure.

Thus, it is rather difficult today to understand what is forcing specific political forces and movements in the West to achieve the closing of the Chernobyl AES: ecological and technical dangers or Ukraine's potential capability to produce the components of a nuclear weapon at the station? However, whereas it is possible to understand Western politicians somehow (who needs a nuclear state on the map?), one question still remains unanswered. Why is nuclear energy undergoing such difficult times in Ukraine where, one would think, no one (the government, politicians, or the population) would profit from persecuting nuclear power stations?

Security Service Defends Reputation

944K2282A Donetsk DONBASS in Russian 6 Sep 94
p 1

[Statement by the Press Center of the Security Service of Ukraine: "Scrupulous Position of the Security Service of Ukraine"]

[Text] The Security Service has repeatedly offered its explanations apropos the briefing of the top organs of power and administration of the state and has set forth its scrupulous position on this matter, which is based on unconditional compliance with the requirements of Article 24 of the Security Service of Ukraine Act. But publications that say directly or indirectly that the leadership of the Security Service is guided in its determination of the areas or issues of information support for the power structures by political conditions or the level of the official in respect to whom information on unlawful actions has been received are once again appearing in certain news media.

Such assertions are utterly without foundation, particularly in the instances where a direct violation of the laws of Ukraine is at stake. Specifically, the organs of state power and administration are regularly briefed on problems of the development of negative processes in the economy and the fight against organized crime and corruption in the sphere of management of the economy—over 500 briefings in the period 1992-1994. Officers of the Security Service of Ukraine have in respect to 900 criminal cases arrested and arraigned more than 400 persons, 110 of whom are officials. They include former leaders and senior officials of the Ministry of Foreign Economic Relations, the former Ministry of Light Industry, the State Committee for Material

Resources, the Ministry of Economics, the State Customs Committee, the Ministry of Internal Affairs, and so forth.

The leadership of Ukraine is also briefed regularly in respect to the attempts that have been uncovered of individual nonstate structures and foreign businessmen to involve the state or subjects of entrepreneurial activity in risky credit or other financial transactions, losses from which would constitute billions of dollars. The agreement between the Ukrinbank Stock Company (Donetsk) and Tamko Konsulting (Germany) for the transfer to the German partner of credit amounting to \$850 million may serve as an example. Based on a violation of the laws of Ukraine at the time of the preparation of this dubious project, whose sponsors were certain representatives of the Donetsk Oblast state administration and overseas financial circles, the procuracy has instituted criminal proceedings. This May also the General Procuracy of Ukraine was handed documentation that had been obtained on an agreement between the Ukrinvalyutorg and the Greek Ukvar Petroleum Ltd for the purchase in Ukraine of 200,000 tonnes of aviation fuel.

In our view, these and other examples, which could, if necessary, be published, testify convincingly that the Security Service is guided in its activity not by political conditions or an aspiration to sensationalism but solely by the requirements of current legislation of Ukraine.

Minister Views Kuchma Team Formation

944K2190A Kiev PRAVDA UKRAINY in Russian
16 Aug 94 p 2

[Interview with Valeriy Pustovoytenko, minister of the Ukraine Cabinet of Ministers, by Aleksandr Sokol; place and date not given: "A Team of Like-Minded People Is Being Formed"]

[Text]

[Sokol] Valeriy Pavlovich! We frequently hear reports of resignations and appointments in the government. Is the structure of the Cabinet of Ministers changing?

[Pustovoytenko] It did not change over the period of time I was absent. The way it was is the way it remains. When the government had no prime minister, the former president combined several subdivisions of his administration with their governmental counterparts. This involved the legal and economic departments and the press service. As far as the latter is concerned, it was purely a political decision. Today these services are split up. In particular, our own press service is being established. Not to compete with someone else, but to promote mutual liaison, get information from the localities, and clarify the work of the Cabinet of Ministers.

[Sokol] The ministries and committees—all of that will remain?

[Pustovoytenko] In principle the structure is the same. There will be the ministries, the most important elements, and committees will be retained. Exactly which committees they will be, how many of these and how many of those, will become clear during the process of our work and will be submitted for confirmation.

[Sokol] Apparently we have not seen this kind of situation in world practice, where one president begins to form a cabinet, and another—newly elected—continues the process. Does this circumstance have any effect on matters?

[Pustovoytenko] Let me note one thing. There was such confidence in the victory of Leonid Makarovich Kravchuk that formation of the executive authority actually began about a week prior to the election. This is entirely inappropriate.

[Sokol] The parliament insisted on immediate formation of the Cabinet of Ministers.

[Pustovoytenko] Let us not shift to the parliament... What is significant is that the matter was not handled as it should have been. People were just about forced to join the Cabinet, so as to fill one position or another and exert some kind of moral influence on former presidential candidate and now President Leonid Kuchma. This is the only way I can perceive the hasty appointments.

A new president must bring in a new team. Everyone knows this. But how can this be done if new appointments have just been made?! And the new appointees include good, outstanding people. What is to be done—ruin their future? I have always put people first and continue to do so. The leader comes later. But—you understand that it is not I who forms the Cabinet. I am just expressing my opinion. The situation is a difficult and complicated one.

[Sokol] The prime minister stated following his appointment that the number of employees in the Cabinet would be substantially reduced. What can you say in this regard?

[Pustovoytenko] Reductions have already taken place. Over a hundred people have been discharged. Incidentally, this was before I arrived and is not a question of a bloated apparatus. The problem lies elsewhere, in the quality of employees. Quality must be enhanced.

[Sokol] Plus an orientation on "fresh" people?

[Pustovoytenko] Of course. We need an influx of new people. Not because the old people are bad—they worked in normal fashion. But they worked according to old guidelines. Therefore, a renewal is underway. Consider today's appointments. First Deputy Minister of Economics—Vasiliy Vasilyevich Rogovoy. Yuriy Yuryevich Khotlubey, chairman of the Mariupol City Council and deputy of the Supreme Council, previous convocation, was confirmed as division director of the Cabinet of Ministers...

[Sokol] Valeriy Pavlovich, you probably still remember the parliamentary disputes over what kind of government we should have. It was asserted that at the present stage it should be established on a coalition basis. Then there is the opposite point of view—that this organ be a team of like-minded people. What kind of Cabinet is the one being formed?

[Pustovoytenko] Purely a team of like-minded people! This is a fundamental matter. The people being selected right now by the president and prime minister comprise a unified team. Coalitions produce unproductive argument and political intrigues. When Leonid Danilovich Kuchma headed the Cabinet, advisers were picked from various parties. What happened next? Each put forth his own idea. And this had its effect on the operation.

We need unity. If we do not have the necessary individual right now, we can and must wait. Then again, we will have people who believe in their leader, who will assist him and stand fast to the end. The team is also expected to enhance the prestige of the leader, to "work for him," i.e., create for him the appropriate image.

What I have just said does not mean, however, that the team must be silent. When you do not agree with something, you must speak up. If you convince people you are right—the overall view will change. But when all you do is talk and complain that the government is not working properly—nothing good comes of this.

Some attractive and interesting ideas of economists have been actively discussed on television lately. I would like to state that the doors of government offices are also open to such discussion. Let us allow sound visions to be turned into decisions that will serve people.

[Sokol] The head of parliament, the prime minister, stated that a new government has virtually been formed. What does this vague, sometimes mysterious word "virtually" mean?

[Pustovoytenko] How can I express it? Nothing is permanent, any collective is going to change periodically. Yes, the Cabinet is formed. But additional things will be reviewed here and there. Sharp movements are not advisable. He who is capable will work. Some people will come to understand that it is too difficult—and they will leave on their own. The important thing is to select individuals who are capable of working for the future of Ukraine.

[Sokol] What would you like to say on your own, without being asked?

[Pustovoytenko] I would like to say a great deal. About the fact, for example, that I am always awaiting those who used to work on the staff in support of Leonid Kuchma. For them the door to the Cabinet of Ministers is open. There is a need for information from the localities—from the simple people and from the leaders. We need sensible proposals with regard to reforms. Often reforms are accompanied by increased prices, but

the government is striving as best it can to avert this. Any decision made must be for the good of people. The individual comes first. Everything else is secondary.

Saburov on Ukraine-Russia Talks

944K2280A Simferopol KRYMSKIYE IZVESTIYA
in Russian 6 Sep 94 p 1

[Interview with Deputy Prime Minister of Crimea Yevgeniy Saburov by N. Gavrileva; place and date not given: "Bad and Good News From Kiev Brought Home Deputy Prime Minister of Crimea Ye. Saburov"]

[Text] In the end of last week, Yevgeniy Saburov left for Kiev to discuss a number of urgent Crimean problems. However, he also managed to take part in Ukraine-Russia talks.

[Saburov] This situation—of accidental participation of Crimea representatives in the talks between Ukraine and Russia—had already happened several times before. Last time I was urgently summoned to Moscow; this time the Ukrainian leadership asked me at the last moment to take part in the talks. Actually, I wanted to meet my friend—Aleksandr Shokhin, who headed the Russian delegation during this round of talks. You know that the talks had been under way for quite a while—three high-level meetings have taken place. The Ukrainian delegation was headed by V. Shmarov. Speaking of our specific needs, there is good news as well as bad news.

[Gavrileva] Did the discussion center on one specific question?

[Saburov] No, specific issues are discussed within expert groups and at ministers' meetings; these are general talks, that is, all issues are discussed here. Their final goal is signing a treaty between Ukraine and Russia, not only political but also economic.

[Gavrileva] What have you been able to achieve?

[Saburov] Alas, the talks got stalled: No movement forward on any single point! The participants noted a strange thing: Toughness during the talks and warm friendship after they ended. Someone even quipped: We have such a good time together that we simply do not want to bring the talks to an end.

Jokes aside, Ukraine's position is becoming increasingly worse with each passing round, since it persistently stays in one and the same place. And Russia is aware that it has no need to hurry—so it does not hurry.

[Gavrileva] How can you explain such behavior on the part of Ukraine?

[Saburov] In different ways with respect to different issues. Ukraine has a much shorter history than Russia; therefore, the interests of the latter are clear to all participants on the Russian side. As to Ukrainian attitude, which is only being built, its interests sometimes

are simply unclear: There are many groups in opposition to each other, and the Ukrainian delegation is afraid to offend any of them; that is why it is not going anywhere, since it is unclear how Lvov, Odessa, or Crimea will react—the latter being a quite serious factor.

[Gavrileva] What is Crimea's place in these talks?

[Saburov] It is quite important. Unfortunately, I cannot speak about it in detail, since certain ethics do not allow me to disclose the content and the course of the talks. Speaking of the latest round, there was one question that did indeed concern everyone: If a military unit is stationed on the territory of Crimea, how are lease payments made and into whose budget do they go? A mutual understanding was reached that lease payments should be the same for all units of friendly countries, or otherwise they should be declared as unfriendly! And also, since these payments are a fee for exploitation of the region's natural resources, they should be used for the life support in this particular region.

Issues of production cooperation also were brought up, in particular, military-technical, as well as exchange of state orders and the problem of payments. Ukraine is Russia's largest debtor. Our creditor is concerned not so much about Ukraine owing so much as it is over the fact that Ukraine does not make any effort to at least somehow stabilize its debt and instead keeps increasing it faster than before. Russia is also concerned over the reexport problem—the conversation on this subject got really heavy.

Unfortunately, I have bad news for directors of our industrial enterprises: Russia quite firmly announced that it will be cutting back military orders. This was quite a blow for Ukrainian plants, especially Crimean ones. With respect to some items, the refusal was so firm and serious that some emergency measures probably will be required.

There were several more positions of interest to us, but, since there was no progress in these areas, there is no need to talk about them.

In principle, the purpose of these talks was to get things moving, and the president of Ukraine instructed us to provide this momentum since there is a summit meeting in the works. Alas, there is no progress. Some documents may be signed out of political considerations... By the way, among the documents that already have been prepared, some are quite good—for instance, on measures to avoid double taxation...

[Gavrileva] And what particular "Crimean problems" did you take to Kiev to resolve?

[Saburov] I think it was a quite successful trip. We went there with quite substantial requests, but we had a preliminary consent of the president of Ukraine to meet our needs and the understanding that, first, we are a burned-out region and are barely holding by a thread and, second, that some Ukrainian decrees and normative

documents have undermined the Crimean budget. V. Masol had the relevant paper, but we needed a personal conversation, which did take place and was quite lengthy. Some agreements already are being implemented, in particular, with respect to agriculture: The credits we asked for eased the situation somewhat.

But, as the saying goes, there is a czar and there is a dog-handler. Speaking of the activities of Kiev bureaucracy and its skill in "burying" the papers—they have a tremendous experience in this. If the situation is not resolved—especially after specific instruction were given by the president and the prime minister of Ukraine—we will have to bring many things out into the open.

Our main points in these negotiations were credits for fuel, planting, and preparation for it; grain purchases; and laying in storage fruit and vegetables. So far, I have to admit that we are not being refused.

[Gavrileva] You surely discussed in some way the problem of reforms in Crimea...

[Saburov] Naturally, I did not waste time and talked with members of the Russian delegation; we had several conversations on the reforms being conducted by the Russian and Ukrainian side. I have to say that everybody was surprised over the situation in Crimea and the state of the budget we have been able to achieve. I understand that it sounds strange for residents of Crimea, but you can imagine how much worse things are in other places. Our deficit figure of 14 percent as of 1 August turned out to be the best (remember that in April it stood at about 40 percent); in Russia, for instance, it is 35 percent. And there is a visible trend toward its reduction here, but we should not get lulled into complacency: It may halt in November-December. But, in any event, we will not get to the level of Russian or Ukrainian indicators; we will hold on. And, had it not been for the situation around bread, we could already raise salaries for the budget-financed sphere.

As to the situation in Ukraine, it maintains a low rate of inflation simply by not paying anything to anybody. And this is very dangerous—after all, creditors may get upset. Ukraine was warned at the talks that when it comes to the Paris club, the main creditor—Russia—may object to the restructuring of its debt, and this is a serious matter. Therefore, in this sense we should strive for some autonomy.

Kuchma Addresses MVD Collegium

944K2179A Kiev URYADOVYY KURYER
in Ukrainian 9 Aug 94 pp 1, 3

[Speech by President of Ukraine Leonid Kuchma at expanded meeting of the collegium of the Ukrainian Ministry of Internal Affairs on 5 August 1994: "How the 'Fifth Power' Is To Be Neutralized"]

[Text] Comrade generals and officers!

I believe that our discussion has been principled and businesslike. I am happy that the bitter truth has finally sounded in this hall!

For this reason I will not touch on all the issues that have been raised here. I will dwell only on a few strategically significant problems in solving which the law enforcement organs are to play a substantial role.

My assessment of the socioeconomic status of Ukraine is well known. I will not repeat it. I will only note that I consider the situation critical, a situation requiring urgent resolute measures of both an economic and political nature. Among the many factors that are stimulating the processes of self-destruction in the economy of Ukrainian society there also are some that either border on the criminal sphere or have an openly unlawful nature. If we were to make a political assessment of this phenomenon, we should recognize frankly that a fifth power has emerged in Ukraine. It is the power of the shadow economy, of illegally amassed wealth, power that has grown and strengthened by way of robbing the state and its own people. It is an invisible power, but at present it is the most unified. It has real levers with which to influence state organs at all levels, the determination of our economic regimen, law enforcement organs, and the shaping of public opinion on particular social issues.

At present, a majority of citizens of Ukraine may instinctively perceive this power. Suffice it to say that according to sociological assessments, almost one-half of the population believes that this particular power is setting the direction of political and economic development of Ukraine.

As president of Ukraine, I understand well the weight that a statement by the supreme official of the state carries. For this reason I want to assure you that prior to actually acknowledging the existence of this political force we analyzed in depth the administrative activities of state organs in recent years, the external economic operations, and the situation in the state and market sectors of the economy. Operative information from the competent law enforcement organs was studied in detail. It is on this basis that I maintain that a semi-criminal fifth power indeed exists in Ukraine. At the same time, I am not going to lapse into cheap populism and dramatize the situation. I know well that at present this power does not have a single center, that acute internal contradictions are characteristic of it, and that so far it has failed to establish complete control over the state and the mass media. However, the growth trend of this force is dangerous. We now have a last chance to stop the mafia-ization of Ukrainian society.

The nature of this phenomenon and its deepest roots should be determined in order to counteract it efficiently. I will dwell on just a few reasons for the growth of this cancerous tumor in our society.

The shadow economy is the first reason. We must recognize that, deliberately or not, the state has itself

facilitated the vigorous emergence of this third economic sector. We have simply forced entire sectors of our economy into the shadows by our tax, external-economic, and currency policies and the regulatory regimen of particular spheres of economic activity. Therefore, what we should do first of all is to substantially change the state economic policy and legislative activities which in a number of instances have forced entrepreneurs and economic managers in the state sector to retire into the so-called "economic shadows" and become partners with even the undisguised criminal element. Understandably, this is not an issue for the law enforcement organs but rather for the president, the government, and the Supreme Council. We are already working on these issues. We hope that the parliament will also join us.

Second, a certain proportion of state officials, from the lowest to the highest echelon, could not resist the temptation to enrich themselves at the expense of the people in the environment of the reorganization of power and fundamental changes in our society.

Economic conditions and the atmosphere of irresponsibility in the supreme echelons of power provide the "most favored treatment" for this.

A peculiar "state racketeering" has set in. Bribery and corruption have become inalienable attributes of certain government institutions and organizations.

Those endowed with greater power have actually turned their state powers and state property into a means of personal enrichment.

Particularly harmful for the state are cases whereby the supreme officials in the government have created such patterns of economic activity that have enabled solely the structures under their influence to receive windfall profits, to enrich themselves personally, and to strike blows at economic competitors. All of this has been done under the cover of state powers which the people entrusted to these individuals for completely different purposes.

The sale of aircraft fuel effected on the instructions of the leaders of the previous government is a case in point. This case is now being investigated by the Prosecutor's Office. However, dozens of such operations have been performed. Against this background entire semi-criminal clans have appeared which have monopolized individual economic sectors and are seriously influencing all levels of state power.

The absence of punishment for unlawful activities is the main thing that corrupts officials. It is common knowledge that Ukraine has lost almost \$15 billion. It has come to the point of some foreign mass media directly indicating that certain state servants have become millionaires in dollar terms and are among the richest people in Europe. Not one of them has been held accountable.

Third, the "fifth power" we are talking about also includes a stratum of strictly criminal origin. At issue are persons with underworld origins who have acquired great capital in a criminal manner, moved first into the sphere of operation of legal business, and are now vigorously making their way to power.

Many of them operate by crudely bribing officials and functionaries of law enforcement organs who subsequently take care of them. The more experienced ones spare no expense to indirectly support political parties and individual politicians. Such activities are stepped up in particular during election campaigns. Attempts to obtain deputy credentials that have been made by even the direct representatives of mafia groups are known.

The passage of certain draft laws in the parliament indicates that the influence of the "fifth power" in the Supreme Council is perceptible.

Therefore, at present state power has a serious opponent in its efforts to restore the civilized, democratic management of society.

What do I consider it necessary to accomplish in order to stop the criminalization of power, the economy, and our society in general?

As president I will take all necessary measures in order to deprive the "fifth power" of the opportunity to use the government and other state institutions to its own ends, and to stop the plunder of the state.

Everyone who has a hand in the people's pockets should be held liable in line with the degree of violation of the law. This is necessary so that it will be understood in the corridors of power that the time of impunity is gone. We will not carry out any economic program in the absence of it, not even the most correct one.

A strong state power is necessary to effectively fight the mafia forces, especially its executive and judicial branches. Incidentally, this is also one of the motivations for vigorous measures taken by the president to form full-fledged executive authorities, and then on a strictly constitutional basis.

The work on the economic, political, and legal substantiation of a model for the expansion of executive power in Ukraine is now coming to an end. Relevant edicts of the president will be signed immediately after this work is completed, and draft laws will be submitted to the Ukrainian Supreme Council.

A strong executive power in Ukraine will be built under all circumstances. Nobody should have any doubt as to that, even those who to this day would very much like to view the institution of the presidency as a mere organ for representation.

Law enforcement organs are a component of executive power. Their main task is to prevent the criminalization of society, prevent the growth of common crime, and ensure personal safety.

It was precisely to this issue that the first edict of the president was devoted.

I understand that if a high official is a part of a particular case, even the highest placed leader of a law enforcement organ is not able to get to the truth. The political will of the supreme leadership is necessary to this end. At present, such will exists: The edict is a legal expression of it. For me, the main point was to demonstrate that the president is prepared to challenge the criminal underworld and to begin a war against it, and primarily not against street hoodlums, and not even the racketeer gangs, although this is equally important, but rather against those who grab millions of dollars, abuse their official position, put their hands in the pockets of the people, and leave the population and the economy without drugs, refinery products, and other necessary goods.

The president has demonstrated his will and has gone on the offensive but, as I said at a meeting with the Security Service of Ukraine, the army has mostly remained in the trenches. Major endeavors are not being implemented.

So, we should examine why, first of all.

I understand that objective conditions exist in this matter, too. Perhaps cases in which highly placed officials are involved and whose extent poses a danger to the economic security of the country cannot be handled independently, in an autonomous mode by any one law enforcement department. Therefore I consider it feasible to establish, under the guidance of the Prosecutor's Office, special interdepartmental investigative teams that will work on these cases. For the duration of their activities these groups are to be independent of the departments and report directly to the president. Together with measures of an economic nature, these groups should deal a serious blow to the so-called "fifth power."

This is, so to say, an urgent measure.

Second, it is necessarily to closely analyze the state of affairs in the law enforcement organs themselves. As far as the operation of the Ministry of Internal Affairs is concerned, I consider it unacceptable. The replacement of the minister and dismissal of collegium members are associated precisely with this.

The presentations we have heard today give even more grounds to consider this assessment objective and cadre changes legitimate.

I attach great hopes to the new minister, Volodymyr Ivanovych Radchenko, and count on him being able to fundamentally reorganize the militia, ameliorate the internal climate, and improve the effectiveness of fighting crime.

I think that you understand what it is about. At present, the strength of the ministry equals that of the Armed Forces. However, does the population feel that it is being

protected from the bandits by an entire army? No. Why? Because only about 20 percent are engaged in actual operative and detective work, because the leaders bear no responsibility for the operation of organs reporting to them.

In Lvov, Kherson, and Zaporozhye Oblasts and the city of Kiev the crime rate is on the rise, the percentage of solved crimes is down, but chiefs of administrations are being promoted to lieutenant generals, although four to five years ago we did not have lieutenant generals in these positions. In 1.5 years the personnel department of the Ministry of Internal Affairs has reviewed almost 5,000 petitions to grant the rank of colonel early and above quota. I will ask: On account of what kind of success? Can anybody answer this question for me?

It should be closely studied who from among the leadership of the Ministry of Internal Affairs traveled abroad, where, and for what purpose. How were foreign exchange funds allocated to the ministry used? It is necessary to examine many other issues, and to clearly determine liability for the violations and shortcomings discovered.

Both you and I know that a certain segment of the functionaries of the Ministry of Internal Affairs are also under the influence of the "fifth power." Last year alone almost 200 militia functionaries faced criminal charges. This is way too many. We understand full well how much harm a single dishonest militiaman associated with criminal groups can do. He can actually neutralize the operations of an entire subunit. Meanwhile you can count such people by the dozen, and then only those that have been caught. How many others are there? A dishonest person endowed with power is more dangerous than a criminal. This is axiomatic.

Therefore, the internal security organs within the Ministry of Internal Affairs should be seriously reinforced.

I believe that the organs of the Security Service of Ukraine should also strengthen the protection of law enforcement organs against penetration by underworld elements.

The militia organs should enhance their strictly professional potential. The reports we heard today give us additional grounds to maintain that the militia has no substantial position for operative and detective operations, for controlling crime. Numerous patrol details are a mere imitation of activity. Given the open nature of my presentation, I will not dwell on this thesis, and I hope that the professionals understand me. If you have understood what this is about, you should remember that requirements in this area will grow in a major way.

The invigoration of cooperation with the law enforcement organs of neighboring states is one more essential problem. Organized crime groups consisting of Ukrainian citizens operate in most of these countries. At

present, this poses a major problem for your foreign colleagues and harms our international prestige.

Protection of individuals is a particularly important task of the militia. People do not feel safe. They are not mentally prepared to grasp that criminal gangs widely use firearms and organize explosions and contract murders not only in remote Western countries but also in our cities.

During my last trip to the southern regions, rural inhabitants simply asked me to help them protect themselves against criminals who rob villages and take foodstuffs. I understand their alarm, and I ask the new leadership of the ministry to pay major attention to this issue.

Another danger of weakening the fight against crime is that people driven to desperation may begin to fight crime independently and spontaneously, by illegal methods, up to lynch law practices.

This may bring about a destabilization of the situation in individual cities and regions.

I believe that enhancing the punishment itself should also be a restrictive factor. Criminals understand only force. Therefore, the punishment should be inescapable and severe. Especially dangerous crimes should draw capital punishment, long terms of incarceration. This is not quite humane, this does not coincide with the European practice of the humanization of punishment and abolition of the death penalty. However, under our circumstances it is a forced necessity.

To be sure, it is beyond a doubt that the growth of the crime rate is unavoidable if we are unable to stop the mounting economic crisis and the impoverishment of the population. Even retirees will soon begin to steal en masse here. At present, state support for them does not meet even the minimum needs for foodstuffs. This is why I caution against a struggle beginning against this particular category and the like, in a chase after the "stats," while the "sharks" will carry on their business of robbery. In this manner, we would quickly turn into a police state.

I know that more than 200 social factors influence both the growth of crime and the fight against it. However, the condition of the law enforcement organs is one of the key factors. I am aware that you need considerable moral and material-financial support.

We have criticized the militia a lot today. However, we know at the same time that the internal affairs organs have a potent, morally pure potential. Both the president and the people count specifically on these individuals. I am aware that doing your duty involves danger to life. In 1991 through 1994 alone, 266 militia employees died at the hand of criminals. We honor their memory, and pay homage to the courage of those who carry on their cause.

The militia organs will also be supported with material and financial resources.

I will shortly sign an edict on raising the pay for military and special ranks.

You know that the edict provides for allocating up to 50 percent of the proceeds from the sale of goods confiscated from the criminals by court rulings to meet the needs of the internal affairs organs.

Special attention will be paid to incentives specifically for operative functionaries.

However, you should take care of the results of your work at the same time. The people should perceive that these outlays are necessary indeed.

In particular, I would like to stress once again the need to comply with the law. I will not allow any violations of legislation in effect to occur.

At the same time, the president and the law enforcement organs should initiate further development of the legal base for fighting crime.

The first thing we need to do together is to speed up the adoption of the law on corruption, which has not been considered for more than a year now, the law on income declarations, and introduce new draft laws.

Finally we should understand full well that stepping up the fight against the "fifth power" will run into vigorous counteraction. The struggle will be hard and dangerous. This will not be only counteraction by brute force which is characteristic of the criminal underworld but also refined political actions. We are picking a fight with forces that own large funds and have numerous information channels and opportunities to influence the government structures, the press, and TV. They can tap major intellectual potential and prominent people for support.

However, the truth is on our side. I am confident that we will be victorious.

Thank you for your attention!

Swift Court System Reform Urged

944K2248A Kiev HOLOS UKRAYINY in Ukrainian
26 Aug 94 p 4

[Text of Statement by the Presidium of the Supreme Court of Ukraine, issued in Kiev on 18 August 1994]

[Text] To a large extent, the establishment of Ukraine as an independent, sovereign, democratic, and rule-of-law state is possible only if there is reliable coordination of the activity of all branches of government—legislative, executive, and judicial.

At its simplest, the doctrine of the separation of powers requires that the legislative branch make laws by passing legislative acts, that the executive branch implement these laws, and that the judicial branch enforce and interpret these laws when resolving specific conflicts and disputes.

The separation of powers, as well as the separation of the functions of each branch of government, is an effective means of safeguarding a constitutional, democratic system in Ukraine.

Only thus can a balance of power and a system of checks and balances be ensured. This is especially indicated by an objective assessment of the causes, nature, and scope of the crisis in Ukraine, of the severe criminogenic situation and the unremitting rise of crime.

We support the president's position that strong governmental power, especially as vested in the executive and judicial branches, is needed to combat the mafia forces.

The election of a new Supreme Council of Ukraine, of new local councils of peoples deputies, and of a new president, as well as the new composition of the Supreme Court of Ukraine, make it possible to create strong branches of government capable of substantially influencing all the processes taking place in the country, guaranteeing the rights and safeguarding the security of individuals, preventing the criminalization of society, and halting the rise of crime through strict observance of laws.

The Presidium of the Supreme Court of Ukraine has begun working on a package of draft laws that will help to create an integral judicial system in Ukraine. It is planned that before these documents are considered at the plenary sessions of the Supreme Council, they will be discussed at the second congress of judges of Ukraine to be held on 20-21 October of this year in Kiev. Taking part in the congress will be judges from other countries, lawyers, and representatives of Ukraine's legal community.

We would like to announce that a draft of the Fundamental Principles of the further formation of judicial power as one of the three constituent branches of government has been prepared and submitted for broad preliminary discussion.

The preparation of this draft was prompted by the recognition of an urgent need to ensure the implementation of human rights, the equality of all before the law and the court, the inevitability of punishment for the commission of a crime, the immediate coming into force of court decisions, the right to appeal and submit to a court of cassation a court decision, and the presumption of innocence.

It is necessary to create an organizationally new judicial system with separate elements and appellate and cassation courts, which will ensure specialization of judicial activity and a higher degree of professionalism and level of quality in deciding cases—something that is still lacking today—and will also make possible a more equal distribution of the work load among judges and solve the problem of delays and superficial trying of cases.

The new character of the Supreme Court of Ukraine will ensure analytical activity and the development of the

practice of applying legal precedent and the highest supervision of the enforcement of laws in specific cases tried in the different elements of the judicial system. It will also provide greater opportunities for effective legislative initiative. In the aggregate, all these things will make possible a real mechanism of protection for all participants in a trial and increase the authority not only of the judicial branch but of government as a whole. Certain in our belief that the building of a truly democratic society and a rule-of-law state is possible only through the establishment of a judicial branch that is equal in power to the legislative and executive branches of government, we submit this statement to President Leonid Kuchma of Ukraine, Chairman of the Supreme Council Oleksandr Moroz, and Prime Minister Vitaliy Masol and count on their understanding and support. [We count] especially on their support in the passage of the draft laws on the establishment and development of judicial power, because only if these and other problems and tasks facing the courts of Ukraine are resolved will it be possible to affirm that the formation of a judicial system is actually taking place in Ukraine, as is the formation and development of a democratic society and a rule-of-law state.

Kiev, 18 August 1994

Lanovyy Portrayed As Political Figure

94P50190A Kiev *VECHIRNIY KYIV* in Ukrainian
3 Sep 94 p 2

[Article by Oleksiy Mustafin of the Perspektiva Scientific-Analytic Center: "New Politicians' In Search Of a New Ideology"]

[Text] One of the particularities of 1994 presidential elections was the noted success of a new generation of politicians. It is new not only in age, but in its political course. The old leaders came out of either the party (Kravchuk, Moroz), the state (Plyushch), or the economic nomenklatura (Kuchma). Politicians from the new generation are not tied to any section of the nomenklatura, and are known first of all as economists, jurists, entrepreneurs, etc. This of course is not just a matter of education—Leonid Kravchuk was also educated as an economist, but as they say, "we don't love him for that." However, Lanovyy, Pynzenyk and Holovatyy have won the sympathy of the voters first and foremost because they are "not stained" by ties to the former and present nomenklatura. For the average person "new politicians" symbolize hope for changes.

The nine percent of the votes cast for Volodymyr Lanovyy is an undoubted success, if one takes into account that young people were unenthusiastic about voting and pensioners showed discipline. In the future the chances of "new politicians" will only grow. Although, it is still too early to congratulate Lanovyy personally for his win in the next presidential election. Everything will depend on whether he will preserve his reputation as an independent and strong politician,

become the real, rather than nominal leader of the democratic forces, and most importantly, avoid the temptation of joining the government and not be transformed in the eyes of the voters into "the betrayer of their hopes."

An attentive observer could not but be struck by one interesting particularity of Ukrainian politics. In practically every Ukrainian government it was necessary to have a person who "personified economic reforms", who was shown to the West as confirmation of the broad reformist intentions of the Cabinet. Prime ministers changed, as did the government course, but the decorative figure of the "minister-reformer" remained. In the Fokin government such a figure was Volodymyr Lanovyy, in the Kuchma cabinet—Viktor Pynzenyk, while in the Zvyahilskyy government Roman Shpek and Vitaliy Medvedchuk divided the role between themselves. Right after his election as president, Leonid Kuchma hinted about the possibility of such an appointment in the Masol government.

In the three years of the existence of an independent Ukrainian state, none of the "minister-reformers" have had serious influence on government policy, and even the small successes which they managed to obtain during their ministerial tenure, were quickly overwhelmed by the flood of antimarket measures. Besides, the presence of reformers in the government made it possible to blame them for all the economic difficulties, while at the same time discrediting the idea of market reforms. It was not for nothing that both Fokin and Kuchma entrusted just those "minister-reformers" with the task of preparing speeches on inflammatory social questions. Someone dubbed a similar tactic of struggle against reforms "the smothering embrace." Even more dangerous to the "new politicians" is the temptation to join the government when the left triumphed in the elections.

Although this may seem strange, the excessive political ambitions of Volodymyr Lanovyy have saved him from the temptation to join the government. He was fired from the post of deputy prime minister because he would not agree to play the role of whipping boy in the Fokin government. A secondary role could not at all suit a person who considered himself "the father of Ukrainian reforms." The interview Lanovyy gave right after his resignation, in which he maintained, in total seriousness, that Ukraine would only receive credits in his, Lanovyy's name, caused a big stir. Having already been deputy prime minister, Lanovyy decided that it would not make sense to return to the government in a position lower than prime minister.

A chance at the prime ministership appeared after Fokin's resignation. Informed people maintain that Lanovyy truly counted on heading the Cabinet. However, this was not part of the plan of the president at that time. Kravchuk chose Kuchma. This decision was a serious blow to the self-esteem of the ex-deputy prime minister. Although Kuchma held talks with Lanovyy and

even offered him the position of first deputy prime minister, everything remained on the level of discussion. Under conditions when almost everyone put his hopes on the new government, Lanovyy was almost the only well known politician who subjected the Kuchma cabinet to severe criticism. Naturally, when disenchantment with Kuchma started to grow, the ex-deputy prime minister was one of the few persons who did not have to change his views.

Now Kuchma assures everyone that cooperation with Lanovyy is indispensable. Lanovyy himself takes up that thought with satisfaction. But at the same time he asserts that the first step of the newly elected president should be to fire prime minister Masol. It is not necessary to say who Lanovyy proposes for this position. Well, as they say, "we can sleep soundly," there is no threat of a Lanovyy government. Kuchma has no need to begin a struggle with Masol in order to satisfy the ambitions of his former rival. Even more so, this would be dangerous for Kuchma. Masol has much more influence than the president now, and it is not known who would have to go in the event of a conflict. In addition the participation of Lanovyy in the presidential election could be a sign that now the ex-deputy prime minister is seriously thinking about the presidency. Kuchma does not like rivals.

Although in the near future Lanovyy, regardless of his personal intentions, will probably have to content himself with the honorable role of opposition leader. Of course being a lone leader today is a thankless task. Even Leonid Kravchuk, who never ever evidenced a special preference toward parties, has carefully begun to sound out the possibility of the creation of "his party." Lanovyy supposedly has had "his party" for a long time. From the time of his deputy prime ministership, he has been the undisputed leader of the Ukrainian liberals. The tiny liberal parties—the LDPU [Liberal Democratic Party of Ukraine] and the Kadets—have always been in sympathy with Lanovyy as a principled and consistent supporter of market reforms. However, the much more influential, and at the same time more prepared to compromise New Ukraine first arose as a "movement in support of Lanovyy," and its program of economic reforms, which the deputy prime minister prepared, became its first program.

To tell the truth, the quarrel between Lanovyy and Kuchma undermined the position of the ex-deputy prime minister as leader of that association. Then for the first time people began to talk about the "unhealthy individualism" of Lanovyy, his inability to work in a team, "the academic character" of his theoretical constructions. It is characteristic that Lanovyy did not bother to refute these accusations. He did not even form his own party. Having become head of his own Center for Market Reforms, he took up the position of "sideline critic," having left the matter of organizing a "nonconformist branch" within New Ukraine to other leaders, including Volodymyr Hrynyov. At the second congress

of the association, Lanovyy confined himself to a theoretical argumentation of the positions of the "Hrynovites," while at the same time declaring that he was not even a member of New Ukraine.

Soon after that, the thesis concerning the "unhealthy individualism" of Lanovyy received further confirmation. Now Lanovyy parted ways with Hrynyov. There were several reasons, but probably the main reason was the election of the deputy speaker as leader of New Ukraine. If Lanovyy could cooperate with Hrynyov the opposition figure, the ex-deputy prime minister perceived Hrynyov the leader as primarily a rival. Thus, "Bolivar could not stand two," and the paths of the former partners diverged. Hrynyov was taken with the idea of a liberal "reeducation" of the director corps and the creation of the Interregional Bloc of Reforms. On this path the ex-deputy speaker would first have to renounce claims on the presidency, and then lose his supposedly newly obtained deputy seat. The MBR only discredited the idea of liberalism and market reforms in general. Lanovyy "went a different route," having returned to being the leader of the "pure principled," but tiny liberal parties. Although, the problem was that the power of the diffuse and small liberal organizations, resembling special interest clubs more than political parties, were obviously insufficient to attain such a large goal as the presidency.

Lanovyy could, of course, attempt to create a new strong and influential liberal party. However, in this he would have not been the first to try. Volodymyr Hrynyov has been trying to do something similar for almost a year. However it seems it was beyond his strength to finish that task. It was not so much a question of the leaders lacking the necessary organizational talents. It seems that domestic liberalism is simply not capable of being the ideology of any sort of mass party. Questions of human rights, which are the basis of the liberal point of view, really only concern a relatively narrow segment of the urban intelligentsia, which truly makes up the core of the liberal parties. The average voter is indifferent to these concerns. The majority of our citizens first and foremost understand human rights not as freedom of speech and belief, but as the so-called "right" to receive a wage, free housing, essential goods at reduced prices, etc. It is paradoxical but true, voters vote for "sausage at 2.20," and while doing so sincerely believe that they are voting for the "most important human rights." As much as that is far from liberalism—there is no need to say more.

Domestic liberals habitually rate their economic programs very highly. However, in practice their well advertised "concepts" are ordinary translations of western textbooks on economic theory. The programs worked out by economic experts, including Lanovyy, are of course more profound, though they are written in the abstract style of a textbook. It is difficult to understand how the program for Ukraine differs from that of Bolivia. But it is even harder to count on the support of the voters for such a program.

The time when people voted for only for fine words such as "reform," "market," "freedom," and "democracy" has passed. These same words were discredited earlier when liberals only just brushed with power. Today the voter is waiting for a different government. However, the liberals have not yet learned to speak a language understood by the people. Perhaps this is a sign of a lack of basic humanitarian preparation. In spite of all statements about the priority of the person, our economists nonetheless have become used to operating not with "people," but with a "population," "workforce," and "production relations."

It is necessary to give Lanovyy is due—he was one of the first who understood the necessity of rethinking his principles. How many commentaries did his joint statement with Mryl on support for the general strike generate! A liberal heading a strike—that looked unusual, if not commendable. A lot was said then about the personal ambitions of the authors of the statement. But the matter was hardly limited to ambitions. This was a step in the right direction. A politician who is striving for important results should look for serious support.

The presidential campaign proved that the winter statement concerning the strike was not a exceptional impulse of an ambitious politician. It seems that the liberalism of Lanovyy has undergone serious changes. It did not only take on a serious social hue (this could be explained by preelection politics)—a significant reorientation took place in the direction of national values, which liberals have traditionally viewed sceptically. Very telling in relation to this is the reapproachment of Lanovyy with politicians such as Pynzenyk and Holovatyy. It is quite possible that we are observing the process of the birth of a new ideology—national liberalism, at the same time distant both from the provincial nationalism of the "old" national democratic parties, as well as from the Moscowophile "reformist" Kuchma type of party. The parliamentary faction Reforms could become the core of a future national liberal party.

Only time will tell how fast this process will go and what consequences this will bring in the end. However, as far as the presidency is concerned, Lanovyy has not changes his views and orientation sufficiently. He must change himself. As paradoxical as it may seem, he may become a national leader only after having curbed his personal ambitions. For many undoubtedly capable politicians, this proved to be beyond their strength. Let us recall Vyacheslav Chornovil. A politician will excessive ambitions can not achieve more than that 23

in a presidential election. But one needs 50
in order to win.

Thus, the matter is not just the personal perspectives of Lanovyy. The matter is whether the national liberals will become a force capable of giving a "second wind" to the democratic movement, giving back to it the force and confidence of the electorate, and uniting all democratic

forces around a common aim. It is likely that national liberalism is the last chance of the democratic forces of our country to come to power any time in the foreseeable future. They simply won't be able to stand a third defeat. But for victory it is not that important who personally wins. Although, it seems Lanovyy holds a different view on that.

Crimea Legislature Work Faulted

944K2191A Kiev NEZAVISIMOST in Russian
17 Aug 94 pp 1-2

[Unattributed article: "The Supreme Council of Crimea Has Done a Great Deal"—Sergey Tsekov Believes"]

[Text] Consistently imitating the practice of countries of the "classical parliamentary system," deputies of the Crimean Supreme Council interrupted their lawmaking activity at the beginning of August to "meet with the electorate." More simply put—they went on vacation.

This break in the functioning of the parliament allows us to draw a kind of line and attempt to answer the question: What has been done over the course of three months? One can boldly state today that our elected people's deputies have confirmed expert predictions with respect to their nonprofessionalism and propensity for endless discussions—which, by the way, should cause no astonishment. Placing their bets during the election campaign on the Russian ruble and Russian standard of living, Crimeans have obtained a parliament whose overwhelming majority are "people from the Square." Some 66 of 98 Supreme Council deputies are representatives of the Russia bloc, entry into which was not very difficult. One simply had to declare loyalty to the president of Crimea and to the concept of joining "the historic Motherland."

One characteristic of the present body of deputies is the adoption of ill-considered and intentionally impractical decisions. Confirmation of the leadership of the Ministry of Internal Affairs and Security Service, the decree on basic military service in the republic, and the Laws "On the Militia" and "On Citizenship" graphically illustrate this. Completely free of mercenariness, the deputies are not stingy when it comes to financing the above-enumerated attributes of statehood. And although such measures are adopted by the government without keen enthusiasm, the parliamentarians are convinced that taxpayers will not be averse to tightening up their belts a bit more.

One equally curious detail is the quite selective attitude the Supreme Council exhibits toward the laws of Ukraine. Depending on the situation and on the decision being made, deputies may reverently observe these laws or they may ignore them. For example, in resurrecting the Constitution of 6 May 1992, the people's deputies experienced no pangs of conscience regarding the violation of Ukrainian legislation. On the other hand, when the matter of establishment of the republic Council on

Radio and Television Broadcasting was discussed, the deputies tried to show that this organ was "not their own concoction," making reference to the analogous organ of Ukraine.

As we know, Yuriy Meshkov has applied a great deal of effort to see to it that the Supreme Council is represented by the Russia bloc, considering that the parliament must be "a puppet of the people of Crimea," and therefore of the universally elected president. Nonetheless, in the words of Sergey Nikulin, chairman of the Russia faction, the body of deputies did not become a puppet. It is apparent that the shadow of alienation was present between Yu. Meshkov and his former collaborators in the election campaign following the arrival in Crimea of the little known team of Ye. Saburov. The Republican Party of Crimea, which brought Yu. Meshkov to power, was expecting to participate most actively in the formation of the new government. At one time Sergey Tsekov sent Ye. Saburov a list of names of specific candidates who, in the opinion of the Republican Movement of Crimea leadership, could head the Ministry of Trade, Ministry for Foreign Economic Activity, Ministry of Agriculture, Ministry of Resorts and Sanatoriums... Alas, a position in the government was not found for the representative of the Russia bloc, and as a consequence, not only the relationship between legislators and the Saburov team, but with the president as well—grew quite complicated.

Incidentally, Yuriy Meshkov himself applied great efforts to spoil relations with the parliament. Frequent tours abroad—quite disturbing not just to the ordinary voter, but to the speaker as well, the striving to lay full responsibility for the impending bread price increases on the body of deputies, clearly unrealizable populist promises by the president—are beginning to elicit major irritation even within the Russia bloc. True, the discontent is most often manifest during periods of Yu. Meshkov's absence, but the fact itself is entirely symptomatic. Apparently even his former party comrades understand that the time is coming when those same voters will demand a settling of accounts. But there is nothing to boast about at present, save perhaps the difficult relationship with official Kiev.

According to Sergey Tsekov, the Supreme Council has done a great deal. With all their lack of professionalism, the Crimean parliamentarians were entirely consistent in adopting decisions aimed at extricating Crimea from the constitutional sphere of Ukraine. Over its three months of work, the first session of the Supreme Council approved six laws, three of which ("On Restoration of the Constitutional Foundations of the Crimean Republic," "On Citizenship," "On the Militia") are aimed at implementation of this goal.

[line(s) missing]the fact that Crimea does not intend to violate the territorial integrity of Ukraine, but is only attempting to structure relations with it on a treaty basis. All the same, legal experts believe that the legislative acts

being adopted are laying the foundation for an independent state. In principle, the deputies themselves are not trying to hide this. Sergey Tsekov stated at his most recent press conference that the parliament did not intend to reject the goal of the Russia election campaign bloc—restoration of unity with Russia.

The only force in the parliament that is coming out against the openly pro-Russian separatist aspirations of the majority of deputies is the Crimean Tatar faction Kurultay, whose position has elicited sharp dissatisfaction not only from the president, but from the body of deputies as well. In the words of Sergey Nikulin, "the prestige and role of this parliamentary faction would be considerably greater if its members did not restrict their presentations exclusively to two orientations: the interests of Crimean Tatars and the interests of Ukraine." By virtue of their small number (just 14 deputies), however, this group is unable to exert significant influence on the results of the voting.

Most unfortunately for the present Crimean leadership, hopes for a change in official Kiev's policy with regard to Simferopol upon Leonid Kuchma's accession to power have not yet been justified. The speaker of the parliament admits that "the warming of relations is unofficial in nature." The reaction of the Ukraine Supreme Council to the Law on Citizenship, adopted by Crimea in the first reading, demonstrates this convincingly. Only the arrival of the parliamentary vacation has kept passions from flaring up once again. This will be postponed until autumn.

Law on Preventive Detention

Text of Law

944K2192A Kiev PRAVDA UKRAINY in Russian
16 Aug 94 p 2

["Law of Ukraine: On Preventive Detention of the Individual"]

[Text] Taking into account the fact that crime in the country is becoming increasingly organized and brutal in nature, and with the aim of strengthening guarantees of citizen protection and protection of the interests of society and the state from criminal encroachment on the part of organized groups, this law provides for the provisional introduction of preventive detention of individuals suspected of planning or committing grave crimes.

Article 1. Preventive Detention of the Individual

Preventive detention of an individual is effected by state organs so empowered with the aim of preventing and suppressing acts of criminal encroachment committed by bands of individuals and other organized groups.

The basis for such detention is the decree, with justification, of the head of an internal affairs organ or security service organ that has been sanctioned by the procurator.

Article 2. Procedure for Preventive Detention of the Individual

Upon the presence of sufficient data obtained in accordance with the laws of Ukraine comprising a basis for suspecting an individual of planning or committing grave crimes within an organized group, the head of the organ of internal affairs or security service organ has the right to detain such an individual for a period of up to 30 days.

The detention is carried out based on a decree, with justification, by the head of the internal affairs organ or security service organ, which has been sanctioned by the procurator. The detained individual becomes familiar with this decree no later than 24 hours from the moment of his detention.

In deciding the question of whether to sanction a preventive detention, the procurator is obliged to familiarize himself with all materials constituting a basis for the detention.

Preventive detention is not used with respect to pregnant women, women over 55 years of age, women who have children up to 14 years of age, Category-1 invalids, men over 60 years of age, or persons who have not reached the age at which they may be held criminally responsible.

Article 3. Rights of the Detained Individual

A detained individual is guaranteed the right to appeal his preventive detention and the right to assistance from a lawyer in appealing the actions of the head of an organ instituting a detention decree or those of the procurator; the right to hold a meeting with a lawyer not later than 24 hours from the time of his detention in the presence of a responsible official from the organ instituting the preventive detention; the right to know what he is accused of and to provide explanation on this account; the right to meet with close relatives in accordance with procedure established by legislation.

Article 4. Procedure for Appeal of Preventive Detention

A detained individual has the right to appeal a decree on preventive detention to a court in accordance with procedure as envisaged by Article 236³ of the Criminal Procedural Code of Ukraine.

Examination of a grievance is carried out in accordance with Article 236⁴ of the Criminal Procedural Code of Ukraine.

Article 5. Term of Preventive Detention

The term of preventive detention is determined by the decree on its application. This term may be reduced or extended by the procurator upon his sanctioning the preventive detention, but it may not exceed the maximum term stipulated by Article 2 of this law. Upon completion of this term, the individual must be released immediately unless his actions indicate commission of

the crime concerning which notification was provided by the procurator in sanctioning the detention.

Upon decision of the procurator sanctioning the preventive detention, or upon decision of a higher-echelon procurator, the individual may be released prior to expiration of the term of preventive detention determined by the applicable decree.

If during the course of the term of preventive detention indications of the crime are established in the actions of the individual, a criminal case is instituted in his regard in accordance with procedure stipulated in the Criminal Procedural Code of Ukraine. In the event the preventive measure of placement into custody is selected with regard to this individual, the period of time spent in preventive detention is counted towards the period of time spent in custody.

Article 6. Implementation of a Decree on Preventive Detention

A decree on preventive detention of an individual is implemented by the organ issuing the decree. Detainees are held in a confinement cell or temporary holding cell. The procedure by which they are held is determined by joint instructions of the Ukraine Ministry of Internal Affairs and Ukraine Security Service, coordinated with the General Procuracy of Ukraine.

Article 7. Measures Providing Care for Persons Who Are Dependents of Detained Individuals

If a detained individual has minor dependents or dependent relatives incapable of working, for whom no care is provided, the head of the organ issuing the decree on preventive detention is obliged to effect necessary measures to transfer the above-mentioned persons to the guardianship of other relatives or arrange for their accommodations in appropriate institutions. The head of the applicable organ informs the procurator and detained individual in writing as to the measures taken. A copy of the letter is attached to the materials of the case on the preventive detention.

Article 8. Measures for Securing the Property of a Detained Individual

In the event of preventive detention of an individual, the organ of internal affairs or security service organ is obliged to adopt measures to secure the property and housing of the detainee if these are left unsupervised.

Article 9. A responsible official of the organ of internal affairs or security service organ is obliged to inform the spouse or other close relative of a detained individual as to the fact of preventive detention and location of the detainee within 24 hours, and when necessary the place of employment of the detainee.

When preventive detention is applied with respect to a foreign citizen, the Ukraine Ministry of Foreign Affairs is informed within 24 hours.

Article 10. Right to Damage Compensation

A detained individual whose guilt in the planning or commission of crimes as envisaged by the first part of Article 2 of this law has not been proved has the right to compensation in the full amount for material damage and moral injury incurred, in accordance with legislation in effect.

Article 11. Procedural Actions Conducted Following Preventive Detention of an Individual

Following the preventive detention of an individual and prior to the institution of criminal proceedings, the following may take place: actions as envisaged by the Law of Ukraine "On Operational Investigatory Activity", perusal or confiscation over the preventive detention period of documents and materials relevant to solving or preventing the crime; audits and preliminary investigations into the financial and economic activity of the detainee; as well as inspections, upon consent of the procurator, of the premises, facilities, means of transportation, or equipment at the disposal of the detainee, personal searches, and expert reviews, the results of which may be used to provide a basis for instituting a criminal case and furnishing applicable evidence.

In the event inconsistencies arise between the norms of this law and the norms of the Criminal Procedural Code of Ukraine prior to institution of a criminal case, the norms of this law are to apply.

[Signed] L. Kuchma, president of Ukraine
City of Kiev

Decree on Implementation

944K2192B Kiev PRAVDA UKRAINY in Russian
16 Aug 94 p 2

["Decree of the Ukraine Supreme Council: 'On Procedure for Implementation of the Law of Ukraine: On Preventive Detention of the Individual'"]

[Text] The Supreme Council of Ukraine DECREES:

1. To implement the Law of Ukraine "On Preventive Detention of the Individual" as of its date of publication.
2. To establish that the Law of Ukraine "On Preventive Detention of the Individual" is in effect until 1 January 1995.
3. That the Ukraine Ministry of Internal Affairs and Ukraine Security Service shall draw up and coordinate with the General Procuracy of Ukraine prior to 10 August 1994 instructions on the procedure for holding persons detained in accordance with the Law of Ukraine "On Preventive Detention of the Individual."
4. That the Ukraine Supreme Council Commission on Legality and Law and Order, Commission on Fighting Organized Crime and Corruption, Commission on Human Rights, Ethnic Minorities, and Interethnic Relations, and Commission on Matters of Legal Policy and

Legal and Judicial Reform shall submit no later than 1 October 1994 for examination by the Ukraine Supreme Council a draft Law of Ukraine on the Introduction of Amendments to the Criminal Procedural Code of Ukraine, which amendments proceed from this law and conform to appropriate international standards of human rights protection.

5. Responsibility for supervision of the implementation of this law is entrusted to the Ukraine Supreme Council Commission on Legality and Law and Order and Commission on Fighting Organized Crime and Corruption.

[Signed] A. Moroz, chairman of the Ukraine Supreme Council
City of Kiev
29 July 1994

National-Democratic Leadership Faulted

944K2247A Kiev NEZAVISIMOST in Russian
26 Aug 94 p 3

[Article by Aleksey Mustafin, Perspektiva Scientific-Analytical Center: "A Strategy of Self-Destruction: A Somewhat Sad, But Instructive Story"]

[Text] The national-democrats lost the general elections so unexpectedly that they have still not regained their senses. And although the leaders of the UPR [Ukrainian Republican Party] nevertheless admitted their defeat at a party conference on 13 August (Rukh, it seems, is not convinced to this day), this does not make it any easier for the followers of these parties.

What is most curious is that a majority of the leaders of the national-democrats still do not understand the reasons for their defeat. They like to reflect on the Russification, that is to say, "Sovietization" of the residents of Eastern Ukraine, the economic crisis, the mounting "sausage" mood among ordinary citizens, the massive pressure of Moscow propaganda, etc. But it appears they are simply not in a condition to admit that a great share of the blame falls on them themselves. Of course, there is nothing surprising in this. To admit one's own incapability means to place one's leadership in doubt not only in the camp of the opposition but also in one's own parties.

The defeat of the national-democrats, however vexing this may be to admit, is most of all an indication of the lack of political ability of their leaders. It was the national-democrats who in 1990 predicted the greatest success. And not without justification. The UPR had perhaps the best party apparatus of all the democratic organizations, it was a party of former dissidents whose authority no one could place in doubt. The Democratic Party was generally called the party of the Ukrainian intelligentsia. Rukh [Movement for Perestroika in Ukraine], which was then headed by Drach and Goryn, was an excellent instrument not only of propaganda but also an organization of mass measures (recall at least the "Chain of Unity"). However, four years have passed...

And today the national-democrats are firmly in the position of political outsiders.

The leaders overestimated the force of the national outburst in 1989-1991. Unquestionably, nationalism has a big mobilizing force. This is shown by the experience not only of Ukraine but of all Eastern Europe. But the same experience indicates that building a serious political strategy exclusively on revolutionary enthusiasm is a thankless task. The national-democratic movement could remain a mass movement only on condition that its programs came closer to the daily needs of the masses themselves. This required a certain reorientation, a unification of national values with liberal-reformist or social-democratic values. It seems, however, that the need for change simply frightened the national-democratic leaders. It frightened them as early as 1991-1992. Any liberal movement seemed to them to be definitely pro-Moscow, and any social-democratic movement—certainly a socialist, if not a communist undertaking. This led to results that were directly opposite to those that they had hoped for. Orientation on the "northern neighbor" won almost definitively in the liberal movement, and social democracy was forced to seriously retreat under the impact of Moroz's socialist party. Time was lost.

Over the course of a long period, a majority of the national-democratic leaders were fascinated by the idea of creating a modern version of Ukrainian conservatism. It seemed that there was a definite justification for this—national and state values in the West really make up the main element of conservative ideology. It was also exactly this that made it possible to call leading Ukrainian figures conservatives—Vyacheslav Lypynskiy, Dmytro Doroshenko, and Stepan Tomashivskiy, whom our national-democrats tried to "emulate."

However, it turned out that national values are necessary, but that they are not the only element of modern conservatism by far. Conservatism as a mass political force appeals to the feeling of nostalgia for the "good old times." For Western Ukraine, the "old times" are the pre-Soviet epoch. And it is precisely in the West that the national-democrats have a significant influence. However, on a large part of the territory of Ukraine that happy pre-Soviet epoch is simply not remembered, and by "old times" they understand here the communist era, when any national values were only talked about perhaps in dissident kitchens. Trying to be a conservative in that situation is to agitate together with communists for a revival of the USSR.

Western conservatism, as a social force, appeals to the private owner—the rich farmer, the respectable entrepreneur, and the large landowner. While simply not one private owner existed in the Soviet Union officially, neither did even a slightly substantial layer of owners emerge in Ukraine during the years of independence. And most of those Ukrainian entrepreneurs who do exist do not have any kind of political sympathies. The

conservative social strata in contemporary Ukrainian society is the former party and administrative nomenklatura that is entirely remote from Western Europe in its position, habits, and traditions.

A significant part of the national democrats were compelled to close their eyes to such a striking incongruity between the conservative ideal and "today's realities." For them, statehood was always a greater value than considerations of ideological purity. The experience of 1917-1920 was perceived as evidence of only one thing: Because of a "clearing up of relations," it is possible to lose independence. It is this part of the national-democrats that formulated the conformist wing—URP-DemPU-KNDS-VNRU [Ukrainian Republican Party—Democratic Party of Ukraine—Congress of National Democratic Forces—National Rukh of Ukraine], which was armed with the strategy of "accommodation to the realities." Of course, for supporting the nomenklatura headed by Kravchuk, the "conformists" received several insignificant positions. But the total balance of "pluses" and "minuses" proved to be far from useful to the national-democrats. By supporting the president, they thereby assumed a substantial share of responsibility for his policy, although they realistically did not have an opportunity to influence it. The split into URP and Chornovyl supporters, who were fighting each other with a pertinacity that deserved better employment, not only weakened the national-democratic movement in general but also contributed to the formation in the mass conscience of a specific type of Rukh follower, that is to say, of "democrats" who seized power but are unable to divide it between themselves. But for the state nomenklatura the former dissidents did not become "their own," and they tried to get rid of them at the first opportunity. The strategy of "accommodation to reality" proved to be a strategy of self-destruction.

However, those national-democrats who remained in the opposition, most of all Rukh, did not end up in the best position. Too much effort was applied by the authorities, together with former Rukh "colleagues" from the UPR, to destroy it as a political phenomenon. Rukh itself lost too much strength in this struggle. And despite the fact that Rukh was able to become a real all-national force (this was confirmed by parliamentary and local elections), it was unable to adapt itself (and, indeed, it did not succeed) to the new conditions, where there is already no "bosom enemy" of Leonid Makarovych, but there are President Kuchma and Speaker Moroz.

The national-democrats did not become either a mass movement or a party of the state nomenklatura, even to this day remaining a marginal structure (as, incidentally, is the majority of the contemporary Ukrainian parties). The best indication of this is the discussion about the unification of all national-democratic forces into a single party headed by Kravchuk. In their "fantasy" these discussions resemble the 1919 Kiev rumors about the arrival of Clemenceau for the purpose of proclaiming Ukraine a foreign department of France. The ideology of

the national-democratic movement consists of an amazing mixture of the ideas of Lypynskiy, Dontsov, Marx, Pavlychko, Roman Koval, and God knows who else, simplified to the level of VECHERNIY KIEV editorials. But while such "marginal conservatism" could still work in the years of the struggle for independence, today it looks hopelessly obsolete, losing, on the one hand, to the radical national DSU [Democratic Union of Ukraine] and UNA [Ukrainian National Assembly] (more understandable for the marginals), and, on the other hand, to the new generation of politicians of a national orientation—Golovatov, Lanovyy, Pynzenyuk, and others who are trying to distance themselves from the "old" national democratic structures.

True, the leaders of the national-democrats seem not to see this. It appears that they have worked out a specific reaction to any changes in the political situation. If these changes occur contrary to their expectations, they simply do not note them. Similar to Vyacheslav Chornovyl's declaration at a press conference that he had not heard of the existence of the ICBM. The national democratic leaders literally built their own "parallel" world in which they themselves determine the rules of the game. They live and function in this world, "they build statehood," and they defeat enemies. From time to time, life in this "parallel world" appears in our world—with some sort of high-flown measure like the congress of the Anticommunist Anti-Imperial Front, or the conference of the League of Parties from Sea to Sea. However, the high-flown measure ends and only the recollection of a buffet reception remains. Measures like this are becoming less frequent, and it can even be surmised that at some time the national-democratic leaders will settle down in "their beautiful world" forever. Although it is entirely possible that the real world will also not take note of this.

Kuchma Decrees Seen As Statement of Intent

944K2219A Lvov POST-POSTUP in Ukrainian No 29, 18-24 Aug 94 p A1

[Unattributed article: "The President Has No Friends, and His Life Is a Wasteland"]

[Text] The three decrees Leonid Kuchma has already issued appear to be more like declarations of intent which the president signs with himself since there are no other people to sign them with. It has been one month since he threw down the gauntlet to the criminal underworld in his first edict, but the entire struggle against the mafia has boiled down to instituting proceedings against the clan of Yukhym Zvyahil'skyy, which have been utterly lost against the background of the extensive mafia "score-settling" and numerous financial scandals in the very heart of the supreme echelons of power. An attempt of the president to subjugate, by a mere stroke of the pen, all the executive authorities of the state—the Masol cabinet, which feels the mighty torso of the left-wing parliament behind itself, and the local organs of power which squeeze in their fists the weighty trump card of the show of the

people's will—shows symptoms of being drunk with success. Kuchma feels strong because no one has yet picked a fight with him. Kuchma considers himself the master, although he only has keys to the Mariyinskyy Palace. Kuchma is certain that he has become the power center of Ukraine, failing to notice that the rest of the authorities have simply taken summer vacations. However, the summer will end sooner or later, and the honeymoon will end even sooner.

"Give me the right to remove directors!..."—this was precisely the core of the package of demands which Leonid Kuchma, the prime minister at the time, repeatedly addressed to the president and the Supreme Council. President Kuchma has not changed his demands; the Edict on Measures to Implement Structural Changes and Ensure Leadership in the Sphere of State Executive Power says: "The president of Ukraine shall appoint the leaders of state committees of Ukraine and other organizations reporting to the Cabinet of Ministers of Ukraine to their positions and dismiss them from their positions...." One does not have to think hard to understand that the definition "organizations reporting" to it means first of all large enterprises which Prime Minister Kuchma devoted so much time and effort to fighting. The same edict substantially restricted the power of the prime minister: In particular, Point 2 said that "...the most significant issues in implementing economic transformations and forming market relations...shall be resolved by the Cabinet of Ministers with the direct participation of the president of Ukraine," as well as "the agenda of the meetings of the Ukrainian Cabinet of Ministers shall be approved by the president of Ukraine." According to the edict, from now on the president will also endorse "regulations on ministries and other organs of state executive power whose leaders are members of the Cabinet of Ministers of Ukraine...."

As he put a blemish on the Kuchma-Moroz-Masol "trilateral agreement," the president was apparently aware that Prime Minister Vitaliy Masol is still around and will hardly give up power as easily as he did during a student hunger strike in 1990. Since Leonid Kuchma has also gotten burned the same way at one point, the struggle between them promises to be fierce. The communist majority of the parliament will desperately cling on to Masol because, having surrendered this bastion, it will hardly be able to defend its own. However, it looks as if the fate of Vitaliy Masol has already been decided. Despite the fact that the previous president had to sacrifice him, he still remains "Kravchuk's man," whom Kravchuk once again has put in the seat of power. For Leonid Kuchma, purging the executive authorities of "Kravchuk's men" is merely a matter of time.

In a private conversation with the author, a highly placed official of the Cabinet of Ministers was skeptical: "Of course, Masol's name is hard to associate with the notion of 'reforms,' but you should not think that the latter are much easier to associate with Kuchma's name."

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At present, President Kuchma is behaving very cautiously. His caution shines through in everything—in resolving personnel issues, in refraining from visits abroad, in procrastinating with the promised package of economic reforms. Leonid Danylovych clearly lacks people who are loyal to him. However, the president was firm in his discussion with the parliament. While doing everything in order to decentralize power, the Supreme Council has still failed to resolve what is the main issue for its ruling majority—to eliminate the influence of the president on the regions.

Following Leonid Kuchma's Edict on Ensuring Leadership in the Structures of Local State Executive Power, the scramble between the president and the Supreme Council has reached a certain equilibrium. Understandably, the next move is up to the parliament, and it is being delayed only by the parliamentary recess. Nothing stands in the way of the majority of deputies passing, in September, such a law on local self-government that will not even mention the subordination of council chairmen to the president.

Ihor Hryniv, one of the leaders of the New Wave sociopolitical association, said the following in conjunction with this: "The president merely offset the recent decisions of the parliament with his edicts. He found a balance but he changed nothing. Actually, the edicts did not change the structure of power in any major way, first of all because they rest on no legal foundation at all. I think that Kuchma's recent decrees are merely his position, a declaration of intent. The main battle between the president and the Supreme Council still lies ahead."

The quite positive statements about the latest edicts of the president made by the leaders of the political forces which should, according to logic, be the first ones to set up a clamor referring to the unconstitutionality of the president's actions also testify in favor of such an assessment of the edicts.

Vil Romashchenko, deputy chairman of the Socialist Party for organizational issues, confirmed that prior to the issuance of the edicts, the president, the chairman of the Supreme Council, and the prime minister held a coordination meeting, and all of them agreed that such edicts would further the consolidation of progressive forces in the state. Personally, Vil Romashchenko assesses the presidential edicts favorably: "If Kuchma has decided to shoulder the entire burden of hardship in the state, he is to be hailed and praised."

Secretary of the Communist Party Volodymyr Petrenko believes that Kuchma's edicts are of a provisional nature—until the Supreme Council passes a law on the local organs of power. For this reason, he personally does not see them as the source of any confrontation. The secretary of the Communist Party of Ukraine said that the party does not see fit to state its position prior to the publication of the edicts.

Serhiy Zhyzhko, first deputy chairman of the Congress of Ukrainian Nationalists, called the edicts of the president necessary since Ukraine has a pro-communist parliament, whereas the person of Leonid Kuchma represents a democratic variant of the state leader. Serhiy Zhyzhko is certain that contradictions between the pro-communist majority in the parliament and the president are unavoidable. However, he said that it would be premature to discuss who the Congress of Ukrainian Nationalists would side with before the scale of the conflict became that of a civic confrontation.

However, be that as it may, Leonid Kuchma appears to have broken down the triangle of power which was formalized by the "statement of the three." The president made a move, and, contrary to chess rules, by two pieces at once. Kravchuk would have never done it: They say that he is at a master's level in chess. Meanwhile, Kuchma emphasizes playing preference....

ECONOMIC AFFAIRS

August Foodstuff Prices in Crimea Reported

944K2281A Simferopol KRYMSKAYA PRAVDA
in Russian 6 Sep 94 p 1

[Report by I. Andreyev: "End of August Prices"]

[Text] The State Committee on Statistics [Goskomstat] of the Republic of Crimea regularly registers the prices of the main foodstuffs and nonfood consumer items in state and cooperative stores, as well as farmers markets. In Simferopol, Feodosiya, Sevastopol, and Krasnoperekopsk. The current data are as of 25 August.

In Crimea a kilogram of grade I wheat flour cost on average 2,800 karbovantsy, rice—16,033, beef—40,592, pork—51,250, highest grade bologna—70,047, milk—7,150, and frozen fish—53,750 karbovantsy.

Prices in different cities are far from the same. In the past, goods were relatively cheaper in Krasnoperekopsk. Then this advantage shifted to Simferopol. Prices for some varieties of products here are below average. On the other hand, everything is considerably more expensive in resort cities and Sevastopol. For instance, while a kilogram of pork cost 78,000 karbovantsy at a farmers market in Simferopol, in Feodosiya it cost 130,000, and in Sevastopol—120,000 karbovantsy; a liter of milk in the republic center cost 11,875, in Sevastopol—25,000 karbovantsy.

The Goskomstat report presents comparative data on prices in Crimea, Nikolayev, Kherson, Zaporozhye, and Donetsk Oblasts. Our wheat flour turned out the most expensive, but bread made of highest grade and grade I flour—the cheapest. Beef was sold in Nikolayev Oblast at 27,750 karbovantsy per kg, and highest grade bologna—61,750 karbovantsy. This product costs approximately the same in other aforementioned oblasts. And milk is cheaper there, too, especially in Nikolayev Oblast

(2,983 karbovantsy per liter). Our sugar is the most expensive. And in general, judging by the statistical data, our cost of living is higher than in neighboring oblasts.

Report on Currency Exchange Market Trade

944K2285A Donetsk DONBASS in Russian 3 Sep 94
p 1

[Report by Maksim Ovechkin and Vitaliy Byaz: "Foreign Currency Exchange News"]

[Text] The elapsed week was marked by a collapse in the exchange rate of the Ukrainian karbovanets, the beginning of which everyone had predicted for so long. On the eve of Independence Day—26 August—the buy rate of the dollar in some exchange establishments suddenly exceeded the previous day's rate by 500 karbovantsy or more. The hard currencies' and the ruble's exchange rates at exchange establishments continued to rise until the end of this week, somewhat declining by Thursday.

On 1 September the U.S. dollar was being purchased at 51,800 karbovantsy and sold at 53,500 karbovantsy (the increase amounted to exactly 5,000 karbovantsy over one week). The FRG mark [DM]: buy—30,800 karbovantsy, sell—32,000 karbovantsy (increased by 2,350 karbovantsy). The Russian ruble also rose somewhat: buy—21.70 karbovantsy, sell—23.15 karbovantsy.

The highest exchange rate in the buying of all the aforementioned currencies was registered at AB Profit company: \$—53,000 karbovantsy, DM—33,000 karbovantsy, and R—22.70 karbovantsy.

The lowest rate at which dollars were sold was 53,100 karbovantsy (Ukrsotsbank), marks—29,700 karbovantsy (Sberbank), and the ruble—22.50 karbovantsy (First Ukrainian International Bank and the Financial-Trading League).

The rise in the rate of foreign currencies was not as swift in other cities of Ukraine. For instance, on 31 August the average rate at which dollars were sold in Lugansk was 52,000 karbovantsy, and the mark—31,000 karbovantsy. On the same day, in Lvov the dollar cost 51,200 karbovantsy, the mark—31,200 karbovantsy, and the ruble—21.80 karbovantsy.

At the MMVB [Moscow International Foreign Currency Exchange] trading in Moscow on 31 August the rate of the Ukrainian karbovanets settled at the mark of 23.50 karbovantsy to the ruble.

The NBU's [National Bank of Ukraine] official rate remained unchanged.

The rate at the NBU auction trading on 28 August was 40,400 karbovantsy to the dollar. On 22 August the president of Ukraine signed the edict "On Improving Foreign Currency Regulation," in keeping with which of 50 percent of foreign currency earnings subject to compulsory selling, 20 percent are sold at the market rate.

In keeping with the same edict, the NBU and the Cabinet of Ministers of Ukraine are instructed to bring the official and the market rates of the Ukrainian karbovanets closer with respect to foreign currencies before the end of 1994.

Specialists' opinions differ on whether the Ukrainian karbovanets will continue to fall at the same rate. We believe that the next two weeks will tell us. One thing is clear: New financial infusions into agriculture and the continuing decline of production only speed up the inflationary processes.

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Kuchma Advisor Views Economic Issues

944K2235A Kiev UKRAYINA MOLODA in Ukrainian
23 Aug 94 p 4

[Interview with Oleksandr Volkov, presidential aide on general questions by Larysa Ostrolutska, under the rubric "One of the Team"; place and date not given: "Oleksandr Volkov: 'That Is Why I Sacrificed My Business and Joined Him'"]

[Text] We have to give them their due. They did not abandon their "patron" when he became a nobody. Today this seems like a gift of Providence, like foresight, but, in reality, they simply believed in him.

The they are Leonid Kuchma's team. Today, most of the members of this team are making themselves at home in the thick-walled offices of the former Central Committee of the CPU, mastering protocol, and learning the job of public officials.

To be a public official also takes talent. In all likelihood, Oleksandr Volkov, presidential aide for general affairs, does not strive to acquire this talent. He has a different talent—that of an entrepreneur, of a businessman. In addition, the talent of a man who has his own point of view, his own opinions, and expresses these to the president of Ukraine.

[Ostrolutska] Oleksandr Mykhaylovych, you, a well-known, one might say, flourishing businessman, suddenly leave your business, enter the political struggle, become one of the principal players on Kuchma's team, and play an active part in his election battle. And now you are one of his closest aides... How do you explain this metamorphosis?

[Volkov] We need to go back in time a little. It is true that the enterprises that I established performed well. But since 1990, since I founded the first of them, the conditions in which small and medium businesses have had to function have grown progressively worse. The passage of the law on foreign investment ushered in some pretty good prospects. It offered benefits not only to enterprises with a share of foreign capital, but also to production enterprises. However, these laws very rapidly

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began to assume a distorted aspect. New statutes and laws followed that contradicted them. Things reached a point at which a law was passed in March that took effect... on 1 January, and under this law we paid so much in taxes retroactively that the enterprise was brought to virtual bankruptcy. That is when it occurred to me that the state and its officials were either playing without rules, or making up rules as they went along, or even after the "game" was over. There can be no normal business development in such conditions, especially if one tries to establish enterprises engaged in production rather than in trade. And that is precisely what I was attempting to do.

Only one conclusion suggested itself: either the people managing the process of developing business enterprise were illiterate, or this was a deliberate policy aimed at stifling business initiative. And so, as long as they had not yet managed to "choke it off" completely, one had to try to influence administrative decisions or to change them. That is why I became a member of the council of businessmen under Prime Minister Kuchma. And since then we have been together.

I recall how impressed I was by the package of documents on ending the crisis in Ukraine that the Ukrainian Union of Industrialists and Entrepreneurs [USPP] had drawn up under the direction of Leonid Danylovych. Many are the times that we then applied to President Kravchuk and to the Cabinet of Ministers; we even held two joint meetings. And what was the result? Zero. I had many opportunities to deal with Leonid Danylovych then, and in the USPP, and especially during the election campaign, and not only regarding specific matters relating to business, and I came to believe that he is sincere in his desire for economic reforms, changes in business, and in his concern for people. And so I made a choice: I decided that I had to help him.

There were not that many of us who began Kuchma's election campaign. Dmytro Tabachnyk, Petro Lelyk, myself, Volodymyr Ryzhov, and later we were joined by Valeriy Pustovoytenko, who became chief of staff. We announced to all and sundry that we had an economic program, which we had drawn up together with Kuchma, and that we would do everything possible to implement it. That is why I sacrificed my business and joined him.

[Ostrolutska] You are an aide in charge of general questions. What exactly falls within your purview?

[Volkov] Taking into account that I am not a novice in the business world (after all, I have 31 years of experience, the last of which were spent in small, medium-sized, and big business), and that I am also known outside Ukraine, Leonid Danylovych offered me a position that is in fact that of his ambassador for special assignments. In other words, I have to be ready at any moment to take part in resolving difficult and urgent issues. For example, I was currently in charge of two important matters. One was the creation of the International and National Security Fund. In accordance with

the proposal of the well-known political analyst, Dmytro Vydrin, the Fund will conduct practical analyses, studies, expert evaluations, and modeling of various social processes that are apt to affect the security of the state.

My other task was to draw up specific proposals on liquidating the effects of the accident at the Chernobyl Nuclear Power Station. Mykhaylo Umanets, the head of the State Committee On Atom Energy, and I worked quite productively and drew up a number of effective measures that can be applied immediately without costing Ukraine a kopeck because they will be paid for entirely by foreign funds. The complete package of documents was placed on the president's table in a very short time.

The way I see it is that if there are ideas, certain proposals that have been worked out, they should not be allowed to get enmeshed in bureaucratic red tape: come back tomorrow, we'll think about it, review it, assess it... Meanwhile, days pass, months pass. The bureaucracy, which, incidentally, is indestructible, is apt to choke any undertaking. We are already seeing this happen in our administration. That is why an office like mine is needed—a kind of rapid deployment corps. One hundred days is not far off. The people need to be shown that we have arrived and that we are carrying out our election program.

[Ostrolutska] Victory has come, but, in all likelihood, the euphoria has disappeared, and you are now encountering countless petty and not so petty problems, obstacles, and a lack of understanding even at the highest echelons of government, let alone at the bottom.

[Volkov] If I tell you that the president is an intelligent man, I will have told you nothing. I believe, and I have grounds for this, that he is a wise man. And he will reach an understanding with all branches and levels of government. On the whole, I believe that the misunderstandings stem from there being an insufficiently clear sense of who should be doing what. When the chairman of the Supreme Council meets with the leaders of the executive branch of government in Moscow, this is clearly not quite within his province. It is as if the Cabinet of Ministers were to write laws. This undoubtedly stems mainly from a failure to understand. Meanwhile, the notion is beginning to spread in Ukraine that the speaker of parliament is seeking to grasp the helm of executive power. But I believe that everything will fall into place.

[Ostrolutska] Still, the president's first steps with respect to the economy are being delayed, in particular, due to lack of agreement with the Cabinet of Ministers...

[Volkov] That is not quite so. Economic decrees, even though they were prepared in advance, cannot be compared to the Decree on Combatting Organized Crime. In the latter case, we invited the heads of the power ministries and the procurator, discussed it, reached a decision, and the work could proceed. The economy is a

more complex issue. It is following one set of tracks, and it is no easy matter to switch it to another. Everything has to be worked out. For example, on what terms will our oil refineries operate? We draw up our proposals, and the other side draws up hers. We then meet, reach an agreement, and only then sign the relevant documents. But this is hardly the end of it. This is only the beginning. We destroyed everything with great ease, and now restoring these processes takes time. Kuchma came into office to halt the decline of production and to rebuild the economy as fast as possible so that beginning in May-June of next year it can begin to function in a new way.

[Ostrolutska] This is not the first time I am hearing the date of May-June. Is this some kind of calculation?

[Volkov] This is the production cycle. We already have a budget, whatever it might be like, and contracts for the delivery of raw materials and component parts. We are currently in the process of drawing up new agreements, holding meetings and discussions. Invisible preparations for creating an effective economic system are under way. And beginning in February, March, April, this system will begin operating at full capacity.

[Ostrolutska] Doubtless, this is all simple in theory. But how are we to switch to a new track, fettered as we are with such a huge state debt? The Russians were here again just recently wanting to know when we would pay them for their gas?

[Volkov] Debts have to be paid. This is the rule for every decent person, and even more so for a state. However, our partners must understand one thing, and I think that they do understand: If deliveries of energy supplies are reduced, our factories and plants will come to a standstill, as will agricultural production. If nothing is being produced, where will the money to pay back debts come from? Therefore, our partners should find ways to increase deliveries instead. This will enable us to pay what we owe them more quickly. We have to resolve the matter of currency regulation. We have to revoke the fixed rate as soon as possible to make it more profitable for the producer to produce goods, export them, and bring back hard currency to Ukraine. All these things are interrelated.

[Ostrolutska] One and a half billion dollars for gas—is this not a lethal sum for Ukraine?

[Volkov] Of course not if we reach an agreement. After all, Russia and Turkmenistan do not want the entire amount to be paid in money. They are interested in our pipes, metal, carbamide, ferroalloys, and agricultural production. But we have cut ourselves off from everybody and set such high prices that it makes better economic sense for Russia to buy pipes from Brazil.

[Ostrolutska] There is a proposal to pay off our debts with shares in our enterprises. But I know that you hold a somewhat different view.

[Volkov] Yes. If we admit Russian capital into our market, it is desirable for our capital to find a home in Russia. For example, we give them 40-45 percent of the shares in the Lysychansk Oil Refinery, but ask for an equal amount of shares in Russia's oil drilling industry, which, incidentally, already employs hundreds of thousands of our oil industry workers. On the other hand, if we simply give away shares as payment for our debt, today we will give away Lysychansk, tomorrow the Pryporovyy plant, and eventually the gas pipeline. And then we can put a period to Ukraine's independence.

[Ostrolutska] But will the Russians agree to such arrangements? Are they prepared to enter into this kind of cooperation? Would it not be simpler for them to say that they can get their pipes in Brazil, sugar in China, and cooking oil elsewhere still?

[Volkov] Naturally, we would be of greater interest to Russia as a raw-materials appendage. But we do not want this. And so we have to raise these issues in a way that serves the interests of Ukraine. Over the last few years, we have lost a significant portion of the Russian market. It is difficult to regain this market, but so far our goods are still moving eastward. That is why we must seek a mutual understanding with Russia as quickly as possible.

And make haste with reforms. Allow business enterprise more scope. I would immediately give support to small businesses that are trying to set up production, grant them preferential credits, and reduce their taxes. But only to small businesses engaged in production. These enterprises should not engage in banking activities, buying and selling, or dealing in securities. Let other enterprises be formed to engage in these operations, and let them be subject to all existing taxes.

If we want our country to be wealthy, we need more wealthy people, and this requires that we create conditions in which people can honestly earn money for themselves and for Ukraine.

[Ostrolutska] Most people today are not thinking of riches; they are only hoping that things do not get worse. They fear inflation and a price explosion.

[Volkov] There will be no explosion. I guarantee it. That prices will rise, even if freely, is certain. What is most important, however, is to ensure that people have social safeguards and that the rise in prices is accompanied by wage growth. Then the impact of inflation will not be so harshly felt.

Inflation cannot be halted by monetary methods alone. Again, the solution lies in increasing production. So that new products appear on store counters and so that we begin recovering the funds that circulate in the shadow economy. According to some estimates, these funds amount to 50-60 trillion.

[Ostrolutska] Perhaps it would be more logical to recover them through privatization?

[Volkov] Unquestionably. And parliament, one might say, dealt privatization a paralyzing blow by halting it. I have been asked many times: what can we do about those businessmen who have transferred their money abroad, how can we force them to bring it back? Forget coercion, forget threatening them with ten years of imprisonment. Because, as things stand now, we do not have the money, but in the event of the latter, we will also have no intelligent people, because it is my firm belief that stupid people will not make that kind of money [as published]. We have to create normal economic conditions in our

country, pass a number of laws, above all, a law on the private ownership of land. There is no need to fear this. One person will build a hotel on his piece of land, another a plant. Nor is there reason for alarm if foreign investors buy land. They won't carry out their plants under their arms. These plants will remain in Ukraine, produce goods, and provide jobs for people. The main thing we need to do right now is stop the decline in production and begin economic reforms as soon as possible. Everything else will take care of itself—I am certain of that.

BELARUS**Republic Seeks GATT Membership**

944F1373A Moscow NEZAVISIMAYA GAZETA
in Russian 19 Aug 94 p 3

[Article by Yurtas Karmanov under the rubric "Belarus": "Minsk Seeks a Chance To Integrate Into World Trade: Better To Enter GATT First, Than To Enter WTO Immediately"]

[Text] On 27 October 1993, in Geneva, Belarus displayed its intention to enter the General Agreement on Tariffs and Trade. But, so far, Belarus has been only an observer at that very important organization. The desirability of entering GATT, however, is understood both by the country's leaders, as was stated at a recent conference of the diplomatic corps, and by the structures that are themselves attempting to analyze the situation. In particular, at a recent session of the shadow cabinet of the Belorussian People's Front, it was stated that the annexation of Belarus to GATT will provide the opportunity to become part of a civilized system of international trade. Increasing the rate of discussion of the question of Belarus' entry into GATT is linked to the fact that recently Belarus handed over in Geneva to GATT general director Peter Sutherland a memorandum concerning Belarus' policy in the field of international trade. Thus, Belarus fulfilled the basic formal condition for entry into that organization, which adheres to firmly established principles—nondiscrimination, reciprocity, cooperation in regulating trade, etc.

Today GATT includes 116 countries that are completely equal members; 27 countries which de facto apply GATT principles; approximately 15 observer countries, including Russia, which in June 1993 applied for entry into GATT; and 30 international organizations with observer status. Also, 90 percent of the world's commodity turnover is controlled by GATT. Currently there has been created under GATT headquarters in Geneva a working group that is studying the Belorussian memorandum, after which Minsk can be sent questions to clarify specific items in the document. Upon the receipt of exhaustive answers, the working group will submit a report to the GATT council, and then there will be a vote, in the course of which it will be necessary to receive no less than two-thirds of the votes. Theoretically, the procedure for entry into this organization is supposed to take several months. However, in practice, it can take years before being accepted into it, since the question and answer system makes it possible, if desired, to prolong the procedure for an indefinite period of time.

For Belarus, in this case, it is not unimportant how much time it takes to formalize its entry into GATT. The fact of the matter is that the progress of trade in recent times has logically led to the desirability of transforming GATT into a more perfect organism—the World Trade Organization (WTO), which is supposed to begin functioning as early as 1 January 1995. It will be more

complicated to annex oneself to WTO than to enter GATT, since the WTO regulations will include all the agreements that were concluded within the GATT framework from 1947 through the Uruguay agreement in December 1993. Until now, in order to enter GATT, it was sufficient to sign only the text of a basic agreement since 1947.

Annexation with GATT will give Belarus the opportunity to become a completely equal participant in international trade, that is, to defend its interests in conformity with firmly established, generally accepted norms, avoiding discrimination and antidumping victimization. In order to extract a benefit from membership in GATT, it is necessary to liberalize one's foreign trade conditions to the maximum extent. That was stated unambiguously in October 1993 by a GATT representative at the Minsk International Scientific-Practical Conference on Problems of Economic and Scientific-Technical Cooperation Between Belarus and Foreign Countries, "Business-Forum-93." It is understood that the introduction of new customs duties for various commodities, as is persistently demanded by certain members of the Belorussian government, will in no way promote a rapprochement in trade with the world.

Lukashenka's First Month in Office Examined

944F1365A Moscow PRAVDA in Russian 23 Aug 94
pp 1-2

[Article by PRAVDA correspondent Oleg Stepanenko, Minsk: "Time of Difficult Decisions: "Aleksandr Lukashenka Takes Steps To Bring Belorussia [Belarus] Out of Its Crisis"]

[Text] People say that the first evaluation of a president's first steps should not be given until he has been in office 100 days. Only a month has passed since Aleksandr Lukashenka became president. But so many important decisions have been made and so many important steps have been taken that life itself demands that they be evaluated at least tentatively. Especially since, to a certain degree, that has been done by Lukashenka himself when he recently gave the voters a television report on the first two weeks of his work.

The question that the president put in first place, and it probably was no accident that he did so, was the question of local authority. He formulated as the chief requirement: "Neither my supporters in the election campaign and in the election nor anyone in the so-called democratic circles have been allowed to mock cadres from below—the chairmen of rayon executive committees, workers in the executive structures, or other managers of local agencies or enterprises." The accountability for that, Aleksandr Grigoryevich warned, will be the harshest: The minister of internal affairs and the chairman of the State Security Committee have already received the task of tracking down such tendencies and reporting to the president.

After the frenzied attacks by the democrat reformers on the representatives and supporters of the present authority, after their demands to replace the Soviets by councils, *soymiks* [parliamentarians], mayor's offices, magistrates, and other administrative links dating back to the days of yore or of the *zabugornyy* [meaning not known] model, Lukashenka's statement was perceived unambiguously. Everyone understood that the president was speaking out not in favor of introducing there any mayors, peers, messieurs, or burgomeister-magistrates that are alien to the spirit of our nation, but in favor of reinforcing the current authority—the Soviet authority and state forms of economic management.

That is why Aleksandr Grigoryevich's measures to reorganize the administrative system, I am convinced, were met with understanding, especially by the man in the street. Although they are unusually steep: The central apparatus of the Cabinet of Ministers and the ministries has been reduced by one-third. Together with the president's administration, it is currently much smaller than the previous government. Life, of course, will show whether such a sharp reduction was well-founded and well-thought-out. Perhaps something will have to be adjusted, but one thing is clear: The president is improving the existing form of authority in order to make it less cumbersome and more effective.

It was also along these lines that a number of specific steps were undertaken that were aimed at increasing the responsibility borne by the higher administrative echelon. Several deputies of the former Council of Ministers chairman and heads of ministries and state committees who had committed malfeasance, who had been involved in instances of corruption, or who had failed to take steps to restore law and order were removed from their positions. An anticorruption committee was created—today all the appointments to higher positions pass through it. The committee has continued the active cleaning of the "Augean stables" that was begun by the parliamentary commission that was headed by Aleksandr Lukashenka. We shall reach, the president promised, the farthest corner of the republic, the very last village, and everyone who is answerable will answer according to the law.

The popular measures that found approval among the people include the abolition of the unsubstantiated privileges for officials. For example, extremely preferential rates for construction credit. Or immoderate transportation services. Out of the 350 cars in the Council of Ministers motor pool that were reserved "for occupants of the throne and officials," Lukashenka left only 90. This was not only in order to save colossal expenditures during the overall crisis, but also "so that they can ride on buses and see what is happening in state and public transportation." The system of paying salaries to administrative cadres—from the president to the production links—is being reviewed.

But probably the most important thing is the president's decision to remove commercial structures from state

enterprises immediately. It is precisely those structures, according to Aleksandr Grigoryevich's conviction, which is based on an analysis of the situation, that are giving rise to chaos and disorder and that are ruining the economy. In times gone by, he recalled, the Minsk Tractor Plant, for example, used to sell, with spare parts, approximately 110,000 tractors, but today it has surrounded itself with commercial structures and sells half as many. The large number of trade middlemen are promoting the excessive increase in the price of all commodities, and primarily food products.

Speaking out against the businessmen who are parasites on the body of the economy and who are reducing that economy to a state of deathbed fever, of course, is a step that even for Lukashenka, for all his boldness and all the support he has from the people, is a brave one. Because we still have fresh in our memory Viktor Chernomyrdin's attempt "to stop the bazaar," which ended for him in complete embarrassment. The "bazaar" in the person of the domestic businessmen and their underlings, jointly with those behind the scenes, exerted so much pressure on the Russian prime minister that he instantaneously threw up both hands....

Nevertheless, here in Belorussia, people hope that bravery will not betray Lukashenka. An edict concerning the fight against businessmen who are inflicting damage on the economy is being prepared. "We shall put them under equal conditions with state trade. They wanted that market, so we will give them that market," Aleksandr Grigoryevich stated. "If they survive the competition, then they will live." In the fight against the "bazaar," Lukashenka intends to take even more stringent steps. If a store, even one that has been converted into a joint-stock company or has been privatized, violates the terms of the contract according to which it is supposed to sell, for example, milk or bread, the contract will be annulled and the store will be returned to the bosom of state property. Essentially speaking, the Belorussian president was the first of the leaders of the CIS countries to rise up and restrain the "holy and untouchable" private property: If it is harming the economy or people, it is subordinated to society and the state.

Firmness is apparently also given to Lukashenka's position by the important circumstance that he has not lent himself to the sophisticated deception by which the "democrats" disguise the essence of the present market reform. This is sensed in his replies to the television viewers. One question, in particular, was: Does the president understand the necessity of the middle class? "Certainly," Lukashenka answered, "but I would like that middle class, as they call themselves, to spring up at its own expense, not at my expense or the expense of those people at whose expense we are today carrying out the so-called reforms."

In these words, as specialists reasonably remark, there is an awareness of a very important fact—it is necessary to

eliminate not only illegal activities, but also crime-producing laws that, as is obvious even to a non-jurist, are maintaining the current reforms that allow certain people to profit at other people's expense. While he was still the chairman of the anticorruption commission, Lukashenka came to the conclusion that the current upsurge in crime was brought to life by nothing else but the system in which "everything is bought and sold, where the rules are made by selfish interests, ready cash, the thirst for profit, and money-grubbing."

Unfortunately, the steps taken by the president to overcome the crisis in the economy also include, as the specialists note, ones that definitely are not indisputable. Primarily these are the shock tactics of increasing the prices of bread, milk, and dairy products. Doubt has already been expressed in PRAVDA (28 July) concerning the desirability of that action, which at that time had only begun. Now it has been done.

Of course, the emergency situation that has developed in Belorussia's economy demanded emergency measures. So one can understand the president. The price of bread, for example, was covered by its production costs by 13.5 percent; and milk, by only 6 percent. For a half-year alone, the subsidies from the budget for bread, milk, cottage cheese, and sour cream would be 6 trillion Belorussian rubles. Moreover, the subsidy mechanism itself, as the president emphasized, was unjust. The money went into the budget from the rich and from the poor, but no one knew who had paid more. Everyone received the same subsidy for food products, but no one knew who consumed more. There was also an increase in the amount of grain used for fattening livestock—it was sold at a price that was one-seventh to one-fifth the price of combined fodders.

But the chief damage was caused by the difference in prices with our neighbors. The very same bread was cheaper than in Russia by a factor of 11-16; sour cream and cottage cheese, by a factor of 3-5; and milk, by a factor of 40! Entire hordes of pedlars literally cleaned all these products out of Belorussia. With the serious decrease in agricultural production as a result of the unprecedented drought, there arose a real threat that people would be left without food products. In order to prevent that, the president made the decision to release the prices of subsidized products, and to compensate the price increases for those who were poorly provided for.

We will agree that this alternative has a right to live. But, according to the firm conviction of many prominent economists, it will not be possible to achieve the desired goals with the aid of this alternative. First, the prices of food products among our neighbors who have been encompassed by the market chaos are constantly rising. For Belorussians, trying to keep even with them is a race without a finish line. A factor that, for example, Doctor of Economic Sciences Viktor Voytsekhovskiy considers to be no less dangerous is an internal factor—the inexorable action of the economic regularities in the economic

organism. The chain here is clear-cut: rise in prices; compensation to the poor (otherwise they will die) in the form of increases to pensions, stipends, and wages; and, as a consequence, the necessity to transfer these additional expenses of the budget and production to the production costs (in nature there is simply no other source); and that means the next rise in prices. Once again it is a race without a finish line.

But how, you might ask, are we supposed to stop it? With the aid of what measures can we get out of this emergency situation? A system of measures that also, unfortunately, are emergency measures and unpopular ones, and a system that has been tested in many countries, is already known to specialists.

"It is necessary to introduce," recommends Doctor of Economic Sciences Nikolay Veduta, for example, "ration cards for subsidized products for workers in the state sphere, retirees, and students, and simultaneously to stabilize in that sphere for two or three years the prices, earnings, and taxes. And it is necessary, in parallel, to organize state commercial trade at free prices for people with thick wallets...."

In the scientist's opinion, there is no reason for an intelligent person to be afraid of ration cards. After the war, England did not cancel them for certain products for almost 20 years. But nothing happened. It continued to live, and it rose again. Today in our country the state of ruin is worse than during the postwar era. Also, ration cards make it possible to achieve the goals that have been set by the president: There will not be any shipping out of products, or any dependency upon the foreign price factor, or any increase in the price spiral in the domestic economy....

Incidentally, at the first stage it would seem that the persons in the president's team who have taken the upper hand are the monetarists in favor of the market, who have been recommending an obviously inflationary path. If their recipes are implemented, it will be necessary to suppress the inflation by the Russian leadership's methods. And everyone knows what those methods have led to: For a half-year, or in some instances even for a year, no wages have been paid; production has been ruined; and production volumes have been reduced by half. Everything is being supplemented by imported commodities, and that is the path to complete bankruptcy in the economy....

The new republic leadership, in the opinion of scientists and specialists who have not lent themselves to politicization or the market situation, ought to take into consideration the fact that Russia has proven to be on the brink of a precipice not because of individual errors made by its current leaders. The reason for the failure is the market course that they chose. The civilized world is moving toward the concentration of production, while they are moving toward fractionation, the breaking up of planned structures and approaches, and growing chaos. It is necessary to take an attentive look also at the

experience of the world leaders who brought their countries out of crisis. For example, Franklin Roosevelt, who achieved phenomenal success thanks to the fact that he resolved the basic tasks—the restraining of a market that had got out of control.

It is also a matter of no small importance to take into consideration one's own experience. Under the planned economy, despite all its voluntaristic perversions and deformations, the rate of income of the national income in Belorussia was three to four times higher than in the developed countries of the West. In 1989 he was almost 8 percent. Even if the growth rates had not increased, but had been, for example, 7 percent, the national income from 1989 through 1994, with a planned economy, would have increased by 40.2 percent. But with the collapse of the planned system and the transition to the market system, it fell by 40 percent. When has it ever happened previously that during five peacetime years a three-year national income, factually speaking, has been lost?

A local commentator once remarked that the previous planned economy in Belorussia and the Union, an economy that had been perverted and raped by fiat, did not have enough leaders like Lukashenka, who is capable of restoring order in all the power structures. If he had been there, the successes of the planned economy would have shaken the entire world. Currently it is difficult to judge how well founded these hypotheses are. One thing is clear: For the president of Belorussia, a time of difficult decisions has arrived. By selecting and maintaining the correct course, many orientation markers of which were set forth in his platform statements, he will be able to stop the republic's decline into market chaos and to bring the economy out of its crisis. And that would be the biggest victory not only for Lukashenka, and not only for Belorussia, but also an example for all the former USSR republics that have been brought to a state of ruination and poverty by the destructive course of the "democratic" reformers.

ARMENIA

Chief Health Official Reviews Republic's Epidemiological Situation

944K2220A RESPUBLIKA ARMENIYA in Russian
25 Aug 94 p 1

[Article by Vega Amirkhanyan: "Don't Lose Your Heads, Advises the Republic's Chief Public Health Physician"]

[Text] The situation with respect to the worldwide epidemic of cholera and the implementation of measures to prevent its appearance on the territory of Armenia and the epidemiological situation in the Republic of Armenia today are the subjects of a meeting of the republic emergency antiepidemiological commission (established in 1992 by decree of the Government of the Republic of Armenia) that was held on 22 August in the Ministry of Health of the republic. The meeting was conducted by M. Babloyan, commission chairman and minister of health.

Mr. Manrikyan, chief of the Directorate for Hygienic and Epidemiological Control, gave a report.

Noting the dramatic worsening of the epidemiological situation throughout the world this year, including in the states of the CIS bordering Armenia, the speaker indicated the reasons the territory of Armenia is under a real threat. They include the unfavorable social and economic situation, unsanitary conditions in our cities and rayons, frequent interruptions in the supply of drinking water, unsatisfactory conditions for the storage of produce and the organization of its sale, and the very active migration processes in the population.

He made special note of the problem of the quality of drinking water and, as a consequence, the rise of acute gastrointestinal diseases in Yerevan as well as other regions of the republic. Checks revealed serious shortcomings with respect to the fight against acute gastrointestinal infections in the cities as well as the rural areas. They include the nonconformity of the water supply system to sanitary standards (30 percent) and the lack of protective sanitary zones and purifying and disinfecting equipment. The problem of disinfecting the water has not been resolved in Ashotsk, Vardenis, Sisiyan, Aparan.... As for the villages of the republic, 95 percent of the potable water delivered there is not disinfected. In this connection, the work of the laboratories to monitor the quality of water was characterized as quite unsatisfactory. Locally they often do not carry out the decisions of the corresponding services. Thus, for example, the reasons for the acute gastrointestinal infections found in Vanadzor and Aparan have not yet been eliminated. In almost all rayons of the capital, the standard deadlines for the correction of breakdowns in the water supply system are being violated. The situation is especially bad with respect to the decontamination and disinfection of water supply lines after the correction

of breakdowns. The corresponding departments and services often ignore hygienic and antiepidemiological recommendations.

The extremely unsatisfactory situation with respect to sanitary purification is giving rise to the particular uneasiness and just anger of the populace. Garbage chutes that have not been cleaned out in months and the lack of doors on them and purification and disinfection all contribute to the spread of flies and rodents. The most deplorable situation in regard to sanitary purification is in Sovetskiy, Arabkirskiy, and Erebuniyskiy Rayons.

The produce factor also plays a major role in the spread of acute gastrointestinal infections (including cholera). Here, alas, there are also a number of gross violations, beginning with production and ending with implementation. Especially dangerous is the production of food products (meat and dairy products, confectionery, and others) by private individuals. Equally dangerous are street trade and illegal markets. In this sense, the capital city represents the most hopeless picture. It is no accident that over the last year the hygienic and antiepidemiological service has prohibited the use of the following as food: 1,911.9 kg of milk products, 9,856 kg of bread and grain products, 5,269 kg of canned goods, 613 kg of fish, 513 kg of granulated sugar and confectionery, 352 kg of meat products, etc. The service of Sovetskiy Rayon alone rejected 993,800 eggs.

The measures undertaken by the service and carried out together with sections of internal affairs that are aimed at prohibiting such trade have not yet yielded the necessary results. Illegal markets and street trade continue to flourish.

An ugly role is being played by the section for nonstate trade and services of the service of the Yergorno Executive Committee, which grants permits to unknown citizens to produce and sell such products as soft ice cream, juices, etc. without coordination with rayon antiepidemiological services.

The speaker also noted unsanitary conditions and violations of hygiene in the markets of Yerevan, Gyumri, and Vanadzor.

He also touched on the question of the uncontrolled importation of food products from beyond the borders of the republic. The Ministry of Health of the Republic of Armenia repeatedly has raised before the government the question of the certification of imported products but it has not yet received a positive decision. As a result, expired products or those of low quality are often brought into the republic.

The following administrative measures have been taken with respect to the violations that have been discovered: There were 1,679 fines against responsible persons, 47 cases were sent to forensic agencies for investigation, 55 cases were sent to the commissions of executive committees for review. The work of 268 food facilities has been

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temporarily suspended, and 320 persons have been temporarily removed from their work based on the results of medical checks. By the way, the speaker called these and other measures undertaken by the directorate inadequate. This, in particular, concerns the extent and kinds of laboratory investigations.

The second report involved the epidemiological situation in the territory of the Republic of Armenia. After briefly describing the epidemiological situation in the CIS and the many cases of diphtheria in Russia, Georgia, and Ukraine, Mr. Manrikyan reported that the relatively quiet epidemiological situation in Armenia suddenly worsened in April of this year. There were 28 cases of diphtheria registered in the republic from 20 May through 20 August, of which 13 were children under 14 years of age. Diphtheria has been detected for the first time in Artashatskiy Rayon (four cases, of which three were children 14 and under) and then in Masioskiy Rayon (21 cases, of which 10 were children). Three cases of diphtheria among adults were discovered in Yerevan. One of the 28 cases (in Artashatskiy Rayon) had a fatal outcome.

The speaker further detailed the measures undertaken to prevent the spread of diphtheria. They include daily yard visits in Artashatskiy and Masioskiy Rayons and in the city of Yerevan. Many suspected persons were inoculated. As of today in the capital, they are carrying out mass inoculations of persons in the risk groups, including those 26 to 60 years of age. Through the efforts of the Ministry of Health of the Republic of Armenia, the republic is receiving vaccines from various international organizations. Thanks to the measures that have been taken, no cases of infection with diphtheria have been registered in the republic since 30 July.

After the reading of the reports, Mr. Manrikyan answered questions from those present. After that, a number of decisions were made on the matter under discussion at the meeting. They involve questions of normalizing the hygiene of the water supply, prohibition of street trade and the work of illegal markets, strengthening of the veterinary services for control in the markets, inoculation of animals against anthrax, certification of produce imported into the republic, temporary prohibition of flights between Yerevan and Makhachkala (until there is an improvement in the situation with respect to the cholera epidemic in Dagestan), improvement of control over the quality of food products sold, and many other problems mentioned in the reports.

By the way, I think that the best recommendation to the citizens of Armenia under our present socioeconomic and other conditions will be:

Drink only boiled water, do not buy food products on the street or at illegal markets, and do not avoid inoculation.

Rely on God (state authorities in the case at hand) and don't lose your heads—so goes the popular wisdom. Mr.

Ararat Mkrtchyan, the republic's chief physician for public health, fully agrees with this. He thinks that as of today the most effective preventive measure against an epidemic is the vigilance of the citizens themselves....

AZERBAIJAN

Trade Unions Score Economic Policy

944K2284A Baku ZERKALO in Russian 3 Sep 94 p 4

[Unattributed report: "Open Letter to the State Adviser on Economic Policy"]

[Text] Chingiz Tagiyev, chief of the Azerbaijani Trade Unions Confederation's department of protection of workers' socioeconomic interests, has released an open letter to Vakhid Akhundov, republic state economic policy adviser. The letter voices resolute disagreement with the state adviser's contention at the president of Azerbaijan's 28 August conference that the 2,000-manat minimum wage should not be raised, since it is sufficient to live comfortably, while an increase will lead to a new round of inflation. Addressing Vakhid Akhundov, the author of the open letter, the text of which was given to the Khabar-Servis agency, writes: "Why did you have to mislead the president, the public, and the population of the country by saying that the food basket used in the calculation of the minimum consumer budget includes delicacies, and that these calculations include annual purchases of pillows, blankets, etc.? Why did you have to disregard the labor of many scholars and specialists, who honestly and conscientiously performed their job—developing for the first time in the history of Azerbaijan a minimum consumer budget for the republic population?" Using elementary calculations, Ch. Tagiyev shows that the minimum wage is not even sufficient to pay for city public transportation, since just four trips a day—to and from work—cost a person 2,400 manats. Neither is 2,000 manats enough to pay for bread, since with the purchase of just one loaf of bread a day at 70 manats each the monthly cost comes to 2,100 manats. "If the miserly 37,000 manats of the subsistence minimum, calculated as of 15 June of this year, looked like a luxury to you," writes Ch. Tagiyev, "I have to remind you that the subsistence minimum means a cost of living below which human existence is described as 'poverty'—a state in which a person cannot meet the most vital personal needs, experiences degradation and personal decline, and is unable to lead an active life and work intensively." The author of the open letter emphasizes that the subsistence minimum is measured by expenditures on the most basic food basket sufficient from the physiological standpoint to sustain the energy for normal functioning and simple reproduction of the population, as well as minimal expenditures on some consumer goods (soap, socks, some categories of clothing, medicines, etc.), as well as municipal, transportation, and postal expenses. According to the open letter's author, the average wage over the first half of 1994 in the national economy of Azerbaijan amounted

to only 7,500 manats, with a subsistence level of 37,000 manats, and hence 92 percent of the republic population live below the poverty line. Currently the subsistence minimum in Azerbaijan is at least 50,000 manats. "How can it happen," asks the letter's author, "that there is no money in the treasury, but in five months the state spent almost the entire budget envisaged for the year on the maintenance of law enforcement organs, higher organs of administration, and organs of local authority, while the money going into the fund of social protection—to pay pensions and benefits—somehow was cut almost by half?" In conclusion Ch. Tagiyev urges that the Azerbaijani people be told the truth, as they are willing to tolerate all sorts of deprivation in order to defend the independence, honor, and dignity of the republic, and advises his opponent, state economic policy adviser V. Akhundov, to invite specialists to figure out why the existing laws on the minimum consumer budget and indexation of the population's monetary income are being ignored by the executive authority, and at the same time to publicly apologize—or, as they do in civilized countries, resign.

Officials Arrested for PKK Weapons Sales

944K2284B Baku ZERKALO in Russian 3 Sep 94 p 6

[Unattributed report under the rubric "News": "Eight Members of Dzhusfa Rayon Council Arrested"]

[Text] A KHABAR-SERVIS special correspondent reports from Nakhichevan that eight members of the Dzhusfa rayon council were arrested on 1 September by the Nakhichevan Autonomous Republic [NAR] police. In his television remarks, the NAR general procurator said that the arrested People's Front members are charged with selling weapons to a PKK (Kurdish Workers Party) military formation operating on the territory of Turkey. He noted that the Turkish side also confirmed this information, but refused to name specific persons in the Turkish leadership who supplied it.

Decline in Commercial Banks Predicted

944K2284C Baku ZERKALO in Russian 3 Sep 94 p 4

[Unattributed report under the rubric "News": "Number of Commercial Banks Declines"]

[Text] Zamin Guseynov, vice president of the Union of Independent Economists of Azerbaijan, believes that "the merging of some commercial banks we have been witnessing lately is a normal phenomenon for the current state of the Azerbaijani economy."

"The situation in which a generally speaking small country has 200 commercial banks cannot continue for long," he said to a KHABAR-SERVIS correspondent. "The contributing factors in this are, on one hand, an acute shortage of cash in the country, and on the other—the mandatory requirement that commercial banks increase their charter capital from 20 million to 50 million manats, which naturally not every bank can

afford. Especially in those instances where several banks are owned by the same person. As a result, after some banks go bankrupt and others merge with larger banks, 15-20 large banks should remain," the vice president of the Union of Independent Economists emphasized.

Price Administration Activities Detailed

944K2283A Baku AZERBAYDZHAN in Russian
3 Sep 94 p 2

[Interview with Khanguseyn Kyazymly, chief of the Ministry of Economics Price Administration, by AZERBAYDZHAN correspondents E. Suleyman and F. Arifoglu; place and date not given: "As Long as the Economy Is Sick, Prices Will Keep Rising"]

[Text]

[AZERBAYDZHAN] What is the role of the Price Administration (former State Committee on Prices) in forming the state's price policy in the environment of transition to a market economy? Are the powers and rights of your agency defined with respect to restraining the diktat of runaway prices set by monopolies?

[Kyazymly] You see, the State Committee on Prices no longer exists. Unfortunately it was abolished in 1989 and transformed into the Main Price Administration of the Azerbaijani State Planning Committee. Soon thereafter the main function of the Main Price Administration—state control over setting and implementing state discipline in the area of prices—was transferred to the Main State Tax Inspectorate.

Currently we are the Ministry of Economics Price Administration, with a staff of 20.

The price administration prepares proposals for the implementation of a single price policy in Azerbaijani Republic, aimed at forming a stable market, freedom of economic activities and development of entrepreneurship, consistently bringing prices for different varieties of products produced in the republic closer to the world price structure, achieving parity and equivalency in the goods turnover between industrial and agricultural products and between different sectors of the republic's national economy; and develops forms and methods of the state mechanism of regulating prices on products, goods, and services in the environment of transition to a market economy.

As to the second part of the question, I want to point out that there are no limitations on prices monopoly enterprises set for their output. They are set by them on the basis of necessary production costs and the size of the profit margin included in the price.

As to our administration's right to restrain the diktat of monopoly enterprises, there is a state registry of such enterprises, the nomenclature of the products they declare (goods and services), and the maximum profit margin, which is set by a joint decision of the Ministry of

Economics and the State Committee for Antitrust Policy and Assistance to Entrepreneurship. If product declaration procedures are violated, the Price Administration has the right to temporarily strip the enterprise of the right to independently set market prices.

[AZERBAYDZHAN] Could you tell us about the legislative acts regulating your activities?

[Kyazymly] Unfortunately I have to say that the uncertain situation in which the Price Administration has been placed today is a result of the fact that there is no state normative act regulating its activities. As a result, the Price Administration is often left out of price policy formulation. At the state level, these issues are currently handled by the Ministry of Economics, the Ministry of Finance, the Main State Tax Inspectorate, the State Committee for Antitrust Policy and Assistance to Entrepreneurship, and the State Committee on Statistics. As you know, such a spread of responsibility produces ineffective results.

The draft law "On Price Formation in Azerbaijan" is now being drafted; it will be submitted soon for the consideration of the Ministry of Economics leadership. This document will place the activities of our agency on a legal base.

[AZERBAYDZHAN] On what category of goods does your administration set prices? Does the price policy extend to imported goods?

[Kyazymly] With the exception of bread, we do not set prices on any domestically produced goods.

We consider, upon the presentation of ministries and agencies, proposals for changes in regulated prices for fuels; basic varieties of baby food; medicines; technical means of disability prevention and rehabilitation of the disabled; apartment rents, including dormitories; basic categories of municipal services; and public transportation services, to which we attach the maximum allowable coefficient of changes in prices (tariffs) and send them for approval to the republic Cabinet of Ministers.

As to whether the price policy extends to imported goods, the reply is unequivocal: Yes, it does.

We conduct import-export operations with all countries at world prices. For products imported through state

channels, selling prices are regulated by the state on the basis of their current level in the marketplace. As a rule, prices set for imported goods and products are lower than market prices, and they act as a restraining factor against further price increases in the "black market."

[AZERBAYDZHAN] Do you expect higher prices in the near future?

[Kyazymly] Keeping in mind that we live in the environment of transition to a market economy, where prices are set freely by producers, it follows that prices may change. The extent of the increase and the overall scale will be different, of course. In the current state of the republic economy, which we are not succeeding in stabilizing, and the continuing inflation and production decline, frequent price changes in the upward direction are mainly a forced necessity. As to changes in fuel prices, which are regulated by the state, they, of course, also must be changed in correlation with the changing production conditions and other factors independent of economic activities of fuel producers. Besides, in keeping with the president of the Republic of Azerbaijan's edict dated 15 July 1994, the Cabinet of Ministers is instructed to review fuel prices quarterly and adjust them to take inflation into account.

State Pay Indebtedness at 30 billion

944K2283B Baku ZERKALO in Russian 3 Sep 94 p 4

[Unattributed report: "The State Owes the Population 30 Billion Manats"]

[Text] The state's indebtedness in paying salaries to the population of Azerbaijan currently amounts to 30 billion manats. A KHABAR-SERVIS agency correspondent was told this by Ilgar Ragimov, acting minister of labor and social protection of the population, who noted that employees in the budget-financed sector alone are supposed to be paid 16 billion manats monthly, but after the expected increase of the minimum wage in September this amount will increase, too. Simultaneously, the state's problems with respect to cash will increase as well. To the question of how much the consumer basket costs today in Azerbaijan, the acting minister said that according to his data, in July—that is, before the sharp jump in inflation—it cost 37,000 manats.

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